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The MAGAZINE of WALL STREET
and BUSINESS ANALYST

AUGUST 2, 1958 85 CENTS

HOW LONG WILL WEST NEED MIDDLE EAST OIL?
By John H. Lind

1958 Mid-Year Dividend Forecasts
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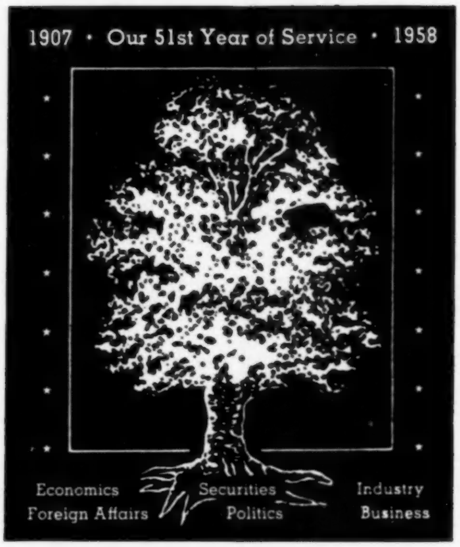
THE MAGAZINE OF WALL STREET
C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

WHAT OF THE FUTURE? . . . Too many of us are so involved with what is taking place in the Middle East that there is not enough forward-thinking about our future needs, and how to fill them, if we are to maintain our position in the new age.

As a result, we are falling behind in our efforts to tap new sources of wealth—to participate in the great opportunities opening up in the emancipated lands whose people are burning with the desire for a better life, which their enormous natural resources could make available to them if properly financed and developed. I am referring particularly to the fabulous riches in South America, and the Far East, and the vast unexplored mineral deposits of Canada.

We can succeed admirably if we are ready to share control, and work side-by-side with these people, recognizing their great urge for national independence—and understanding their resentment of outside control or ownership of their natural resources and industries. But above all, we must avoid the mistakes we have made elsewhere, as is the case in Canada, where we were invited in to make the capital investments in the first place—yet resentment arose, although language and customs, political aims and interests are the same.

It is clear the situation calls for an entirely new approach. Gone is an era in which one great world power, as in the case of Great Britain, can take over the resources and natural treasures of backward nations and exploit them. Today it must be friendly collaboration for we are in a period of rampant nationalism. And unless we act realistically, we are likely to lose out in a way that will bring a great decline in our fortunes.

At the moment we have much work to do both at home and abroad to stabilize our position.

Currently our economy is establishing a base mainly on the vast consumer markets for essentials and conveniences—and at a very high level. This is a result of the greatly increased personal income of the workers in our country, which has produced a new middle class economy for the United States on a standard of living that emulates the higher income class.

This enormous consumer spending does not produce the profits that make for great national prosperity, but it does help to support a level strongly resistant to deep recession, and gives us the opportunity to correct maladjustments and to work out ways and means for greater future progress. It should act, too, as a stimulus to international trade and world peace.

In the August 16th issue we are going to have two fascinating stories, one a scoop telling of the trek of great American corporations in collaboration with Canadian companies—that will make available tremendous new sources of badly needed raw materials from the hitherto unexplored wilderness.

The other feature will deal with the vast underdeveloped wealth in oil, tin, rubber, drugs, spices, etc., in Indonesia, that we must not lose by default to the communists. It is a story complete in itself, and covers the various political and social aspects of this area in which 85,000,000 people live on a subsistence level although surrounded by enormous wealth.

Both of these stories are written by men who have lived and worked in these areas and have a first-hand knowledge of the people, their problems and what can be accomplished.

As I See It!

By JOHN H. LIND

HOW LONG WILL THE WEST NEED MIDDLE EAST OIL?

THE coup in Iraq should really not have come quite as much as a surprise to the West as it did. For one thing, Nasserism, under whose banners it was carried out, is an imperialist force and as such feeds on aggression. Unfortunately, too many people in the West still think of Nasserism simply as an Arab nationalistic movement. This is as much a mistake as was the labelling of Chinese communism as an agrarian reform movement. Nationalism is concerned with self-determination and national independence, something which nearly all Middle East countries have already. Imperialism, by contrast, can live only by continuous expansion and dies by just standing still for any length of time.

Nasser – like Napoleon, Hitler and Stalin before him – is fully aware of this. His position as the most powerful personality in the Arab world is contingent upon his furnishing forever new evidence of his ability to push back the political economic and geographic borders of Egypt. The uprising in Iraq is therefore just another step in his total conquest of the Arab world, his avowed ultimate aim.

Another more immediate reason for the Iraq affair, or at least the timing of it, may well have had something to do with recent events in North Africa, the western expanse of Nasser's potential empire. A couple of months ago when General De Gaulle took over in France it looked very much as if France's only political personality might bring the Algerian strife to an end by establishing a federation of autonomous North African states—Algeria, Tunisia and Morocco—within the framework of a French commonwealth. Had this happened, President Nasser would have had to write off one half of his great dream and a good deal more of his prestige. Unfortunately, the reactionary elements in France seem to have foiled De Gaulle's strategy and the Nasser-controlled Algerian rebels seem to be stronger and more determined than ever to carry on their guerrilla war against France. However, the possibility of losing North Africa is likely to have had at least some influence on Nasser's decision to strike now while he was still the undefeated challenger.

How does the new situation affect Middle East oil? For the West this is really the key question. For if it were not for the unalterable geological fact that two thirds of the world's oil reserves lie within a 400-mile radius from the head of the Persian Gulf, our costly and persistent preoccupation with this relatively small, extremely underpopulated and arid area, devoid of all other important resources, would make little sense.

However, it makes a good deal of sense when we consider that Middle East oil represents over half a century of human effort and some $4 billion of investments on the part of West European and American companies, that it is by far the world's largest and cheapest oil source and Europe's only non-dollar oil supply source. It is the life blood of the European economy.

Nasser and his lieutenants are as aware of this as is the West. But at the moment he cannot use this knowledge as a club against Western Europe because he himself is seeking the enormous oil revenues to finance the goal of his ambition as Empire Builder. That is the reason why there has been no attempt, or even threat, during the current crisis to interrupt the Middle East oil flow and why the new regime in Iraq has been at such pains to assure the West of its intention to respect all existing oil agreements. For both Washington and London have made it quite clear to the new rulers that any wilful interruption of the oil flow would cause them to send their troops into Iraq itself.

No one wants to contemplate the disruption that would follow. The Iraqi in particular do not know what this might lead to. They will remember Mossadegh's mistakes in Iran. Thus, for the moment, oil from the Middle East will continue to be as plentiful and as accessible as before the coup.

Nevertheless, we must not close our eyes to the fact that, for all practical purposes, Nasser has now extended his domain to one of the area's big oil fields. By itself this would not be a major threat to the West. Iraq supplies only some 4 percent of the Free World's oil needs. Its loss could therefore easily be made up by higher production from other Middle East countries or from Venezuela or the United States, all of which have considerable excess producing capacity. Of course, Nasser could compound the difficulties for the West by simultaneously closing the Suez Canal and the Trans-Arabian pipeline, both of which are located inside United Arab Republic territory. However, given the present world-wide surplus of tankers, oil producing capacity and oil inventories, such a move could be coped with, although it might create some temporary shortages in Europe.

Kuwait and Saudi-Arabia

What Nasser must try to do—and what he clearly is trying to do—in order to establish his hegemony over Middle East oil, is to gain control over Saudi

Arabia and Kuwait. At the moment he seems to have his eye on Kuwait, a sheikdom no bigger than the state of New Jersey with a population of only 200,000 but more oil beneath its surface than in the entire western hemisphere, from northern Alaska to the southern tip of Chile. Politically, Kuwait has a protective treaty with Britain which manages the sheikdom's foreign affairs and guarantees its military security. However, such a treaty could be abrogated. The sheik's recent ostentatious trip to Damascus to meet Nasser and current popular disturbances in Kuwait caused by elements demanding immediate union with the United Arab Republic are ominous signs. On the other hand, if Nasser has the least bit of political intelligence he must know that Britain would never give up Kuwait voluntarily, regardless of any local popular sentiments. MacMillan is reported to have told this much to Khrushchev who in all probability has passed it on to his on-and-off friend Nasser.

Why is Nasser in such a hurry to round out his control over Middle East oil? Imperialism and personal ambition give only a partial answer. More important is the fact that Middle East oil will not always hold the key to the Free World's energy requirements. Other factors are making their entry on the scene. There is atomic energy, underground gasification of coal, utilization of the vast shale oil resources—and even solar energy. None of these are at present important enough to replace Middle East oil, or even de-emphasize its importance. But, inexorably this situation is changing and some day, very possibly within the life time of Nasser, Middle East oil will have lost much of its tremendous bargaining power.

The ironic thing—for Nasser—in this development is that his own actions are a major factor in speeding it up. Take atomic energy, for instance. Before the Suez crisis, Europe had planned a slow but steady development of this new source of power which was scheduled to contribute no more than 8 percent of the continent's total power needs by 1975. As a result of Nasser's oil policy, Europe's atomic energy program has been greatly expanded, with the express intention of stabilizing oil imports. American vast shale deposits are another case in point. If Middle East oil were available in unlimited quantities without any political strings attached, neither the government nor private investors would be particularly eager to press on with a shale oil development program at this time.

Behrendt in Algemeen Handelsblad, Amsterdam

"Swell . . . what a smell!"

But, again as a result of Nasser's policies, the U.S. government is likely to actively encourage such a program by giving shale oil the same depletion allowance as crude oil. In the meantime, gigantic new oil fields are in the process of being opened up in the French Sahara and will probably be opened up before long in Argentina by private foreign oil companies. Both these moves are made admittedly in order to counteract the political risks of Middle East oil. Thus, western ingenuity and initiative are already laying the groundwork to bypass the Middle East oil bottleneck if it should become too tight.

Seen from the long-range view, Mr. Nasser's position is therefore by no means unassailable. True, he may achieve control over the bulk of Middle East oil. But if he does, he will only speed up those developments which will rob him of the fruits of his victory. In the short run his chance of success is even smaller, since his current extent of control over Middle East oil is not enough to do major damage to the West where an oil surplus exists, and who can counteract unfriendly measures by retaliating in ways that will hurt.

The problems lie in the intermediate period. If he should win control over the oil fields of Kuwait and Saudi Arabia before substitutes for Middle East oil have been developed it could present a considerable medium-term threat to the economies of Western Europe.

EDITOR'S NOTE: I wonder how many realize that Gamel Abdel Nasser's victorious coup in Iraq, without Soviet collaboration, has brought him out into the open as Russia's serious rival to their 300-year-old goal for dominant influence in the Middle East.

Khrushchev's silence when King Faisal's government fell, followed by face saving expressions of tame goodwill, gave the clue to the Russian shock that Nasser should have brought off this important step without them.

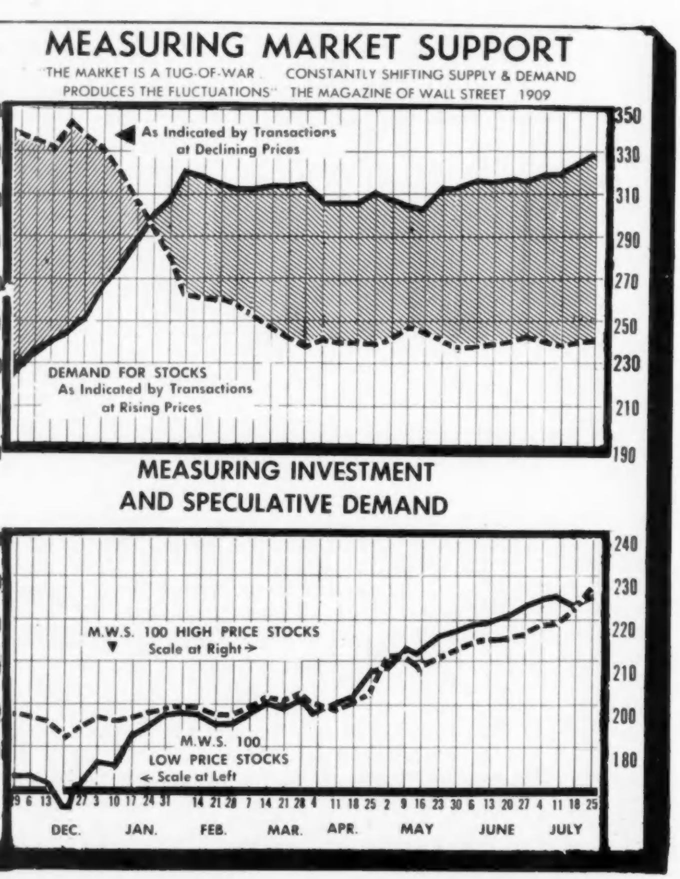
Therefore, if and when Khrushchev comes to New York, it now seems in the cards that the possibilities for a clarification between the United States and Russia can emerge. This may bring a sharp change in the world power line-up that might slow down Red China, whose ambition for leadership in the communist world has been subject to an agonizing appraisal by leaders in the U.S.S.R. Coming days are likely to see some unexpected twists and a jockeying for position that will be full of intense interest to all of us.

Do You Know What Stocks To Buy—To Avoid—Now?

The market's recent further rise has been unusually sharp, in abnormally active trading. With excess mounting, a blow-off could be near. Mid-East events, results of the expected Summit meeting and their portents for our economy are unpredictable. Stick to common sense in your portfolio management. Leave excited, risky speculation to others.

By A. T. MILLER

Judging from the roaring market of the past week, which soared to over the 500 mark on heavy volume, there was more thinking in terms of how well our economy has been holding up on the enormous volume of consumer spending resulting from the high incomes of our people, rather than any other cause—and the optimism it created despite the greatly reduced activity in such vital industries as autos, steels and capital goods.



Yet this is not surprising, with one important indicator after another turning up in the past few months, as has been clearly shown since March by our "Business Trend Forecaster".

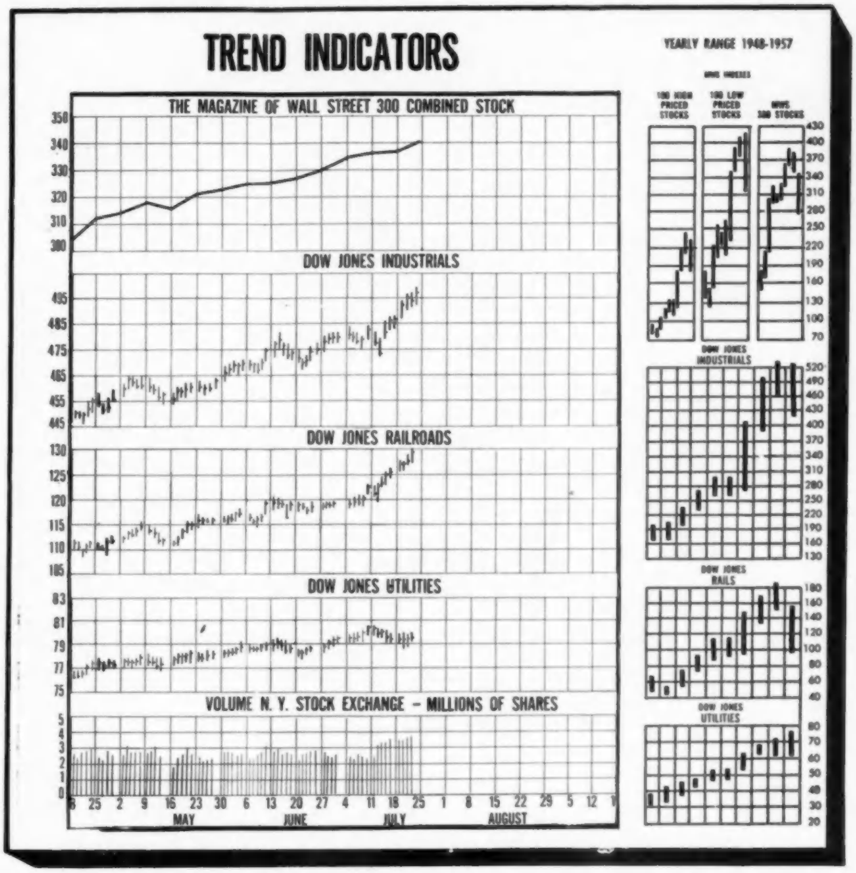
But, if you looked solely at the performance of the stock market – and did not know better – you might suppose that otherwise everything is just dandy in this world we live in. You might suppose that the Middle-East crisis will in some way add to American prosperity, or that it will speed us down the road of inflation at a fast clip, or that it will be resolved soon along lines satisfactory to the West and thus permit us to get on with business as usual. You might suppose that whatever is to happen will be bullish for one reason or another. And, boiling it all together, you might suppose that we are in sight of another boom in business activity, in corporate earnings, in dividends.

Certainly those who are buying stocks have no inside knowledge about what is going to happen in the Middle East, which, at the moment, is crucial because of the effect that any adverse decisions can have on the position of some of the greatest companies in the world, at home and abroad.

At this time, the proposed Summit conference within the framework of the UN Security Council in New York City, its scope within the limit of Middle-East problems (as insisted on by our President), and agreement on the heads of state who will participate, are still under diplomatic maneuvering. In our lifetime nothing has ever been accomplished from discussions in which the special interest of the various countries took part, as is bound to happen in this instance.

Assuming the conference is held, the question is whether it may reduce or increase the existing Middle East—and world—tensions. There is nothing in the record of the West's past dealings with

European diplomacy, with our Communist foe, or with Egypt's ambitious Dictator Nasser, to suggest that the outcome this time will be pleasing to us. Nasser is aiming at an Arab Empire. Our European allies have key commercial and financial interests. The Communists aim at world expansion of their power and prestige, and final world domination. They aim to "bury" us in one way or another; and Khrushchev was never more cocky, boastful and threatening than now.



Enthusiastic Stock Market

But if the stock market has any worries or doubts about anything, it is not superficially evident. Following a brief dip and pause on initial news of the Iraq coup and the landing of U. S. forces in Lebanon, it took off on a real flight of fancy – fancy because it contrasts so sharply with the limited potentials for improvement in business and in company profits during the rest of this year, if not also for 1959. Fancy also, because it might prove largely wrong in its concept of the inflationary implications of our small-scale, non-war and probably temporary military intervention in Lebanon. The fact is that the Administration will jump at any good excuse to pull out of Lebanon.

The net gain by the Dow industrial average over the past fortnight was 19.88 points or about 4.1%; that of the rail average was 8.5 points, or nearly 7%. Numerous individual stocks rose 3 to more than 10 points, including rails, chemicals, machinery, steel and other cyclical-type issues. Presumably on mutual-fund or other institutional buying "for the long pull", regardless of current values, many already overpriced growth stocks rose further.

Two examples: Minneapolis-Honeywell, up 8 points in two weeks to 99 for a yield of about 1.75% at a level probably around 33 times 1958 earnings; and Minnesota Mining & Mfg. up 5⅝ over the same period to 87⅝, to yield less than 1.4% at a level probably close to 40 times 1958 earnings.

Trading Volume Large

Trading volume expanded progressively on this spurt of buying in previously distrusted heavy-industry stocks by traders, coverers of short positions and others. It reached a level close to 4,500,000 shares by the final session last week. Even if this were a sustained bull market, begun at a really depressed level and now in a position to discount a boom in business and in corporate profits on something closer than a "longer-term basis", the speed and scope of the recent rise, as well as the high share turnover, would have to be considered abnormal. In the stock market, the abnormal sets up need of correction; and hence is always temporary.

At last week's close the industrial average had made up about 80% of last year's July-October fall from a level around 521: the third of the now historic triple tops recorded within about a 15-month period between April, 1956, and July, 1957. For rails, the recovery to date is about 60% of 1957's July-December fall, and 40% of the larger decline from this average's April, 1956, top.

The utility average, although it made some recovery in recent sessions, remains under its July 11 bull-market high by a fraction, up to this writing. The relative appeal of defensive income-type stocks has been significantly reduced because of rising confidence in industrial recovery and decreased confidence in money-rate prospects as translated into bond yields. So more idle money is going into cyclical stocks in hope of further wide gains, less into income stocks than in earlier months this year. Some switching out of income stocks to more volatile equities is also undoubtedly going on in this speculative phase.

What was the matter with the industrial list at the 1956-1957 triple tops? Answers: the average was considered too high in the vicinity of 15 time boom-level earnings, the small spread of stock yields over bond yields was considered too narrow, and the business boom had begun to peter out in one key area after another, pre- (*Please turn to page* 552)

Shocking SINKING SPELL IN BONDS CAUSED BY SPECULATORS

What Now?

By Michael Stephen

THE bond market has just gone through its worst sinking spell since the outbreak of World War II in September 1939, with losses on many issues ranging from 5 to 7 points. The immediate cause of the collapse, dating from completion of the Treasury's June 15 refunding, was overspeculation in Treasury bonds. Initial price declines stemmed from the more favorable tenor of business news which led investors generally to take a more cautious attitude toward bond purchases at prevailing high prices, and precipitated panicky liquidation by speculators who had bought in expectation of further business decline, as well as further measures by the Federal Reserve to increase supplies of funds for loans and investments among the banks.

It was only when liquidation began that it became apparent how huge the speculative interest was, and how largely it was financed on thin, or even non-existent margins by "Free Riders"! Attracted by the big profits racked up on all the earlier Treasury bond issues since last September, investors and speculators flooded the Treasury with subscriptions for new 2⅝% six-year eight-month bonds. No less than $7.4 billion were taken, double the $3.5 billion Treasury experts had hoped to sell.

What accounted for the unexpectedly big demand was the willingness of almost everybody to borrow to buy bonds. New York banks on June 18, three days after the new 2⅝s were issued, were lending to brokers and dealers on U. S. Treasury issues $1,357 million, ten times the year-ago figure and a new high since the War Loan drives of World War II had swollen the figures. The New York Stock Exchange reported that between May 28 and June 25, borrowing against U. S. Government securities by member firms (both for their own and customer account) rose by $415 million to $957 million, the highest level in the fifteen years these figures have been kept. Unreported but known to be substantial were loans by business corporations to security dealers and speculators, collateralized by the new 2⅝s and often with no margin of protection against price decline.

The Treasury's announcement that $7.4 billion of the new 2⅝% bonds had been allotted, making it clear that speculators would have trouble finding buyers to take bonds off their hands, was enough in itself to weaken the market. But the real shakiness developed after a news dispatch from Washington stated that the Federal Reserve authorities were concerned that they had taken their easy money policy too far. This hint that a reversal of credit policy might be in the wind was enough to panic the bond market, and set off a wave of selling.

With so many of the bonds carried on 5 point margins, and some on no margin at all, even modest price declines brought forced selling, which in turn precipitated further softness in prices and still more selling. Just as it seemed that the main block of speculative holdings had been liquidated, and bond prices showed signs of steadying out, the market had a new shock. The revolution in Iraq and American involvement in Lebanon threatened another Korea and, at the least, even greater Treasury deficits than were already in prospect. The market retreat threatened to turn into a rout.

Official Support Operations

The Federal Reserve authorities moved to restore confidence in the bond market in June by making large purchases of Treasury bills. Although these took no bonds off the market, they indicated the authorities concern, supplying banks with excess reserves to the greatest extent since 1954, and denied allegations that credit policy was becoming more restrictive.

When the market continued to sag, the Treasury began support operations of its own, using part of its heavy cash balances to buy the recently issued 2⅝% bonds in the market. The market became aware of these shoring-up operations shortly after they started in June but their full extent was not known until July 9 when the Treasury revealed that it had bought back $589.5 million of the $7.4 billion 2⅝s it had issued only weeks before. Explaining that it had not meant to issue as many of the 2⅝s as were taken by investors, the Treasury said "the weight of an issue of this size, which was primarily adapted to commercial bank investors, together with large acquisitions by temporary holders, exercised a disturbing effect on the market for outstanding public debt issues."

Nevertheless, bond prices continued to go off as liquidation continued. Taking another step to encourage the market, the Treasury on July 18 revealed that its refunding offer for $16.3 billion maturing certificates and bonds would not include a bond issue, the first Treasury financing since last October that had not. Holders of the maturing securities were offered in exchange only one-year 1⅝% certificates. In addition, the Treasury made it clear that its planned cash borrowing of about $3 billion in August would be confined to a security due in a year or less and that there would be no further borrowing until October.

The Treasury announcement of its intentions to give the bond market a rest for a while, failed to rally sentiment. Treasury bonds opened higher in initial trading following news of the refunding terms but soon relapsed as much as a point below the opening quotations. Sentiment in the market touched new lows, as did almost all issues maturing beyond 1963. The Treasury had shot its bolt, and the market had not responded at all.

Federal Reserve Policy Change

Quickly following the failure of the market to respond to the Treasury move, the Federal Reserve Bank of New York tersely announced that: "In view of condition in the U. S. Government securities market, the Federal Open Market Committee has instructed the manager of the Open Market Account to purchase Government securities in addition in short-term Government securities." This represented a major shift in Federal Reserve policy. Since December 1952 the Federal Reserve on all but one occasion has bought only 91-day Treasury bills in its open market operations. The exception was a purchase of $167 million 2⅝% certificates in December 1955, on a when-issued basis, to prevent the failure of a Treasury refunding.

The Reserve authorities reportedly backed up their announcement with some modest purchases of long Treasury bonds. The market immediately took on a steadier tone. While there was no aggressive bidding for bonds, offerings tended to dry up and prices rallied ¼ to ¾ point.

TABLE I

SWINGS IN TREASURY BONDS

	October 1957 Low		April 1958 High		July 1958 Low		July 21, 1958	
	Price	Yield	Price	Yield	Price	Yield	Price	Yield
2½% Treas. bonds due 6/15/67-72	85¾	3.74%	97¼	2.72%	92¾	3.10%	93¼	3.08%
2½% Treas. bonds due 9/15/67-72	85¼	3.79	97¼	2.72	92¾	3.10	93⅛	3.09
2½% Treas. bonds due 12/15/67-72	85⅝	3.75	97¼	2.72	92¾	3.10	93¼	3.08
4% Treas. bonds due 10/1/69	99¾	4.00	110⅜	2.92	105⅝	3.34	106¼	3.30
3⅞% Treas. bonds due 11/15/74	101⅛	3.74	110⅞	3.03	104¼	3.53	104¾	3.47
3¼% Treas. bonds due 6/15/78-83	92⅛	3.71	103⅛	3.04	97⅜	3.38	98⅛	3.34
3¼ Treas. bonds due 5/15/85			101½	3.12	97⅛	3.38	97⅞	3.35
3½% Treas. bonds due 2/15/90			106⅞	3.16	100	3.50	100½	3.46
3% Treas. bonds due 2/15/95	86¾	3.62	99	3.04	93¼	3.31	94⅛	3.26

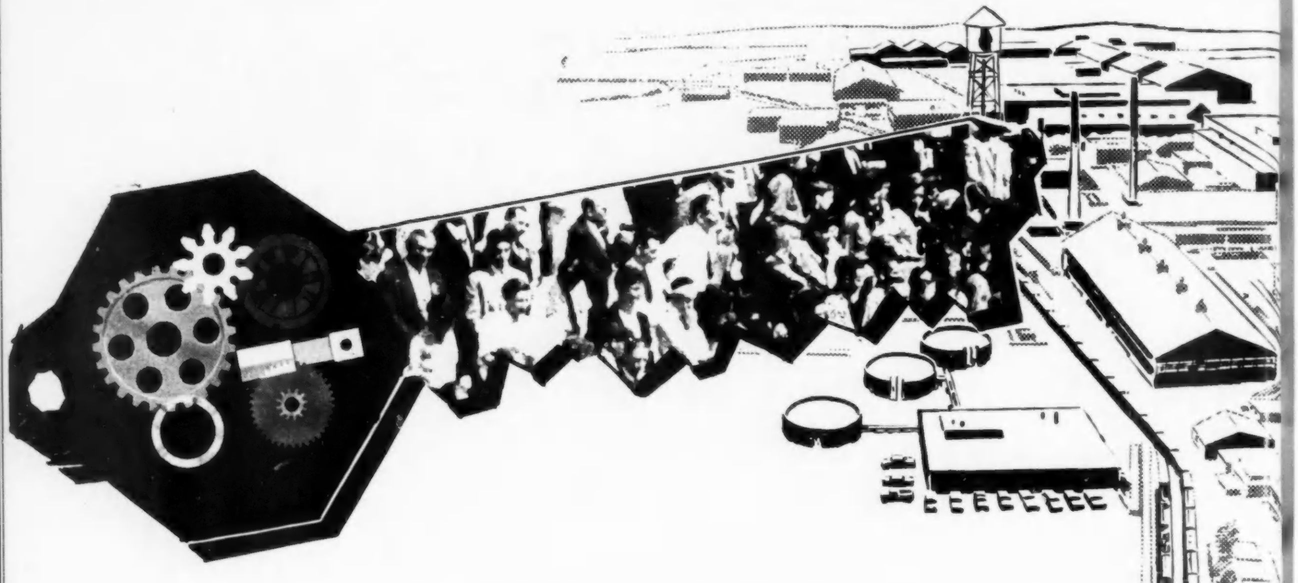
TABLE II

Current Prices And Yields on Selected Corporate Bonds

Rating Issue	*Price*	*Yield*
Aaa—U. S. Steel Corp. 4% Sinking Fund debentures due 7/15/83	100½	3.97%
Aaa—N. Y. Telephone 4⅛% refunding mortgage bonds due 7/1/93	101⅞	4.03
Aaa—Texas Company 3⅝% debentures due 5/1/83	97	3.80
Aa—Amer. Tel. & Tel. 5% debentures due 11/1/62-83	110	4.34
Aa—Amer. Tel. & Tel. 3⅞% debentures due 7/1/90	98	3.98
Aa—Consol. Edison 4% 1st. & refunding debentures due 6/1/88	99¼	4.05
not rated—Assoc. Investment 5¼% debentures due 8/15/77	113	4.24
A—Southern Railway 4½% Collateral Trust deb. due 8/1/88	102	4.38
A—Burroughs Corp. 5% sinking fund debentures due 7/1/83	100	4.38
Baa—Pacific Power & Light 4⅜% first mortg. bonds due 1/1/88	97½	4.53
Baa—Transcont. Gas Pipeline 4⅝% first mortg. bonds due 12/1/78	99¼	4.69
Baa—Boeing Airplane 5% sinking fund deb. due 8/1/78	98½	5.12

Bond Price and Yield Fluctuations

Bond prices have now reached levels at which they are attracting some genuine investment demand. As the preceding **Table I** shows, the Treasury 3½s of 1990, issued last February, fell as much as 6⅞ points from the April high to the July low. Nevertheless most longer term (*Please turn to page* 548)



Shifts in Sales— —Profits and Dividends in the 12 Key Industries

Showing companies above—below average

By HAROLD B. SAMUELS

SIGNS that the recession is bottoming out, coming simultaneously with the traditional summer rally, has infused the stock market with greater rallying power, but, outside of the utilities and a few exceptions, leadership has been mainly in lower priced and speculative categories.

On top of this, the renewal of tension in the Middle East has caused a flurry in so-called war stocks, stimulated by speculators and psychologically encouraging the market interest of those who sold stocks at the onset of the Korean War and repurchased them at considerably higher prices later.

Thus, the heavy demand for shares during the first week of this crisis adds another element to the forces that are driving stocks upward out of all proportion to earnings and dividend prospects.

Whether or not there will be a Middle East war is not the province of this article, but if it should come American industry will undoubtedly swing back into capacity operations. Such an eventuality, however, will also bring in its wake such half-forgotten things as Excess Profits Taxes, price and credit controls and other mechanisms that will limit benefits for stockholders.

But if there is no war (and the odds favor this proposition), then the latest available statistics indicate that it will be some time before American industry can return to the levels of profitability that prevailed in 1956 and early 1957.

Figures recently released by the Federal Reserve Board, the SEC and the FTC all place in sharp perspective the havoc wreaked by the recession on America's corporate enterprise. Moreover, they point up clearly that a broad recovery will have to be scored before earnings and dividends can justify the current level of the market.

What First Quarter Figures Show

The accompanying tables showing the sales, earnings and dividends of large corporations offer a graphic portrayal of the plight of our large companies in the first quarter. Electric power and telephone utilities scored modest gains, as might be expected from their chrcteristically stable operations, but both the durable and non-durable manufacturing groups suffered wide sales and earnings declines. What is particularly significant is the rapidity with which profits evaporated even where the sales decline was moderate. Thus, in the non-durable sector a sales drop of only 7.6 per cent was translated into a 32.1 per cent decrease in after-tax profits.

Surprisingly, dividends for manufacturing companies rose by 4.3 per cent in the quarter, probably reflecting increases among the few strong sectors of the economy, as well as reluctance on the part of large companies to cut dividend payments until they are sure that no recovery lies ahead. Actually, however, the total figures disguise a generally deteriorating dividend picture. In June, 57 corporations cut or omitted dividends compared with only 22 in the same month last year. Moreover, since the beginning

of the year cuts or ommissions have outnumbered increases 359 to 136. By contrast, last year increases led the way 252 to 85, and in 1956 the favorable ratio was 453 to 45.

By far the most significant figures, however, are the latest released by the S.E.C. revealing that profit margins in the first quarter fell to 3.4 per cent of sales from 5.1 per cent a year earlier, confirming warnings that have been repeatedly issued in this magazine over the last few years.

High Fixed Costs

The extent of the profit squeeze indicates that at least through the first quarter American corporations had little success in controlling costs. Labor costs have been disturbingly rigid throughout the recession, but the real reason for the profit squeeze lies even deeper. For industry can lay off labor, as it has done so far this year, but it has no way of limiting the expense of carrying the tremendous capacity that has been added in recent years.

It is well to bear in mind that since the end of World War II American industry has spent *three quarters of a trillion dollars on new plant and equipment*, and much of it is still not paid for or written down on the books. There is no sidestepping these obligations. Interest and amortization charges must be met regardless of the level of earnings, even if the present level of profitability fails to offer maximum tax advantages.

Against this background, and in view of their first quarter experience, it will be useful to appraise the earnings and dividend prospects for key companies in each of the industries shown in the accompanying tables. Comments, in most instances will be confined to those companies that performed either better or worse than their industry, since the former may possibly offer a key to dividend-increase candidates, while the ltter obviously points the way to possible dividend casualties.

The Rails

Utility companies are covered in a separate article in this issue, but the railroads, another of

Sales, Profits and Dividends of Large Corporations

The table below presents final figures for the fourth quarter of 1957, and preliminary figures for the first quarter of 1958, covering the quarterly sales, profits, and dividends of large corporations.

	1958 1st Qtr. (Prelim.)	1957 1st Qtr.	1957 4th Qtr.	% changes 1st Q 1957 to 1st Q 1958
PUBLIC UTILITY CORPORATIONS				
Railroad				
Operating revenue	2,239	2,574	2,582	−13.0
Profits before taxes	59	247	259	−76.1
Profits after taxes	31	161	199	−80.7
Dividends	96	122	121	−21.3
Electric Power				
Operating revenue	2,676	2,540	2,457	5.0
Profits before taxes	768	731	630	5.1
Profits after taxes	421	393	357	7.1
Dividends	281	269	273	4.5
Telephone				
Operating revenue	1,672	1,560	1,673	7.2
Profits before taxes	402	387	400	3.9
Profits after taxes	200	195	203	2.6
Dividends	164	148	160	10.8
MANUFACTURING CORPORATIONS				
Total (200 corps.)				
Sales	16,721	19,797	18,752	−15.5
Profits before taxes	1,626	2,752	2,192	−40.9
Profits after taxes	849	1,432	1,232	−40.7
Dividends	782	750	849	4.3
Nondurable goods ind. (94 corps.)				
Sales	6,132	6,636	6,560	− 7.6
Profits before taxes	649	947	778	−31.5
Profits after taxes	374	551	474	−32.1
Dividends	354	314	371	12.6
Durable goods ind. (106 corps.)				
Sales	10,589	13,161	12,192	−19.5
Profits before taxes	977	1,804	1,413	−45.9
Profits after taxes	475	881	758	−46.1
Dividends	429	436	478	− 1.7

	1958 1st Qtr. (Prelim.)	1957 1st Qtr.	1957 4th Qtr.	% changes 1st Q 1957 to 1st Q 1958
MFG. CORPORATIONS Selected Industries				
Foods and kindred products (28 corps.)				
Sales	1,615	1,618	1,691	− .2
Profits before taxes	140	135	153	3.8
Profits after taxes	67	65	79	3.2
Dividends	65	39	54	67.2
Chemicals and allied products (26 corps.)				
Sales	1,858	2,045	2,047	− 9.1
Profits before taxes	281	395	369	−28.9
Profits after taxes	144	197	197	−27.0
Dividends	160	150	187	7.1
Petroleum refining (14 corps.)				
Sales	1,801	2,048	1,906	−12.1
Profits before taxes	147	299	156	−50.7
Profits after taxes	123	230	144	−46.5
Dividends	95	91	97	4.3
Primary metals and products (39 corps.)				
Sales	3,040	4,272	3,675	−28.8
Profits before taxes	303	676	473	−55.2
Profits after taxes	157	342	260	−54.0
Dividends	147	157	179	− 6.5
Machinery (27 corps.)				
Sales	2,454	2,624	2,871	− 6.5
Profits before taxes	230	293	306	−21.5
Profits after taxes	110	141	152	−21.8
Dividends	83	79	86	4.5
Automobiles and equipment (15 corps.)				
Sales	3,853	4,993	4,277	−22.8
Profits before taxes	346	711	506	−51.3
Profits after taxes	161	336	279	−52.2
Dividends	164	166	173	− 1.4

Data for table from Fed. Reserve Board.

Contrasting Sales — Profits — Dividend Record of Selected Companies In Key Industries

	Sales or Revenues				Net Profits Per Share After Taxes				Dividends Per Share			
	1958 1st Quar.	1957 1st Quar.	1957 4th Quar.	% Chng. 1st Quar. 1957 to 1st Quar. 1958	1958 1st Quar.	1957 1st Quar.	1957 4th Quar.	% Chng. 1st Quar. 1957 to 1st Quar. 1958	1958 1st Quar.	1957 1st Quar.	1957 4th Quar.	% Chng. From 1957 Div. to Ind. 1958 Rate*
UTILITY CORPORATIONS												
RAILROADS												
1. Southern Pacific	$148.4	$158.0	$164.5	— 6.0%	$1.21	$1.40	$1.37	—13.5%	$ .75	$ .75	$ .75	....
2. N. Y., Chi. & St. Louis	33.8	43.4	42.3	—22.1	.36	.94	.98	—67.7	.50	.50	.50	....
3. Lehigh Valley	17.0	13.7	16.2	—19.4	[d]1.70	[d] .42	[d] .31		......	.30	......	b
ELECTRIC POWER												
1. Southern Cal. Edison	63.6	54.0	54.9	+17.1	1.03	.77	.87	+33.7	.60	.60	.60	....
2. Nia. Mohawk Pow.	76.8	73.8	71.3	+ 4.1	.79	.70	.51	+12.8	.45	.45	.45	....
3. Cleveland Electric	32.1	31.6	30.7	— 1.6	.77	.79	.75	— 2.7	.40	.40	.40	....
TELEPHONE												
1. General Telephone	76.2	68.5	75.6	+11.2	.72	.74	.78	— 2.7	.50	.45	.50	+ 8.1
2. Amer. Tel. & Tel.	1,631.7	1,521.2	1,601.5[a]	+ 7.3	3.22	3.32	3.27[a]	— 3.0	2.25	2.25	2.25	....
MANUFACTURING CORPORATIONS—SELECTED INDUSTRIES												
FOODS AND KINDRED PRODUCTS												
1. General Foods	358.3	344.0	246.9	+ 4.2	1.13	.92	.83	+22.8	.50	.45	.50	+12.8
2. Corn Products	81.6	75.5	81.3	+ 8.0	.56	.54	1.01	+ 3.7	.45	.37½	.37½	+20.0
3. Pet Milk	45.1	48.0	48.6	— 6.4	.29	.66	.43	—56.0	.40	.40	.80	....
CHEMICALS AND ALLIED PRODUCTS												
1. American Cyanamid	132.5	131.1	140.3	+ 1.0	.58	.61	.69	— 4.9	.40	.37½	.47½	+ 4.0
2. Allied Chemical	148.8	165.8	161.7	—10.3	.68	1.01	1.06	—32.0	.75	.75	.75	....
3. Diamond Alkali	26.8	30.1	25.0	—11.0	.31	.84	.25	—63.1	.45	.45	.45	....
PETROLEUM												
1. Texas Co.	565.8	619.9	570.3	— 8.7	1.25	1.58	1.51	—20.6	.50	.50	.85	....
2. Phillips Petroleum	261.7	296.1	281.1	—11.8	.60	.83	.64	—27.7	.42½	.42½	.42½	....
3. Atlantic Refining	144.8	169.6	143.1	—14.6	.26	1.61	.67	—83.8	.50	.50	.50	....
PRIMARY METALS												
1. Reynolds Metals	115.6	105.2	114.4	+ 9.9	.86	.94	.88	— 8.5	.27½[c]	.27½[c]	.15	....
2. International Nickel	85.2	109.9	112.5	—22.4	.84	1.61	1.39	—47.7	.65	.65	1.80[c]	....
3. Kennecott Copper	84.8	133.7	103.2	—36.9	1.08	2.57	1.31	—60.0	1.50	1.50	1.50	....
MACHINERY												
1. Combustion Eng.	74.2	44.9	129.2	+39.1	.51	.43	.97	+18.6	.28	.28	.28	....
2. Clark Equipment	28.2	31.4	33.6	—10.1	.42	.52	.80	—19.2	.50	.50	.75[c]	....
3. Bullard Co.	4.2	9.5	5.8	—55.7	[d] .62	.22	[d] .27		......	.30	......	b
AUTOMOBILES AND EQUIPMENT												
1. American Motors	108.7	100.2	118.6	+ 8.4	.43	[d] .41	.88		......	......	......	....
2. General Motors	2,721.3	3,076.9	2,754.8	—11.5	.65	.93	.84	—30.0	.50	.50	.50	....
3. Chrysler	537.2	1,150.7	819.1	—53.4	[d]1.74	5.34	1.70		.75	.75	1.75[c]	—62.5

*—Percentage change on annual indicated basis.

[a]—3 months to Nov. 30, 1957.
[b]—Dividend omitted.
[c]—Includes extra.
[d]—Deficit.

RECENT COMPANY RECORD: 1—Above average.
2—Representative.
3—Below average.

our great regulated industries, offer an excellent example of the overbearing effect of unused capacity when business turns downward.

The evils of railroad labor practices are well known by now, and readers of this magazine need no reminders of the debilitating effect on operations of featherbedding and other forms of labor freeloading in the railroad companies. But there can be no doubt that a large part of the 80.7 per cent drop in net for the carriers in the first quarter can be attributed to the dissuse of new yards, freight cars, and automated facilities installed in the last few years. The cost of carrying these facilities is enormous and has prior claim on railroad etrnings.

Where results were substantially better than the industry average such as **Southern Pacific,** outside factors in addition to excellent management have to be credited. SoPac's first quarter earnings were off less than 15 per cent but the company was the unexpected beneficiary of the citrus crop failure in Florida due to the unusually cold weather in that state last January. As a result the road carried an exceptionlly large amount of California fruit to the eastern part of the country. Operations in February and March were not nearly as good, but the net effect for the quarter made excellent comparative reading. More importantly, however, it virtually assured earnings of about $5.00 per share for the year, affording ample coverage for the $3.00 dividend.

By contrast, the **Lehigh Valley,** which is heavily dependent on industrial activity in the east had its financial woes compounded by the recession. Revenues dropped faster than the industry average and earnings plummeted to a huge deficit, necessitating the ommission of dividends. No early resumption of payments seems likely.

Durables Vs. Non-durables

By now everyone is aware through widespread publicity that this has been a durable goods recession. While industrial equipment has slumped consumers have continued to spend their earnings in near record amounts on food, clothing and the other necessities of life. As a consequence the food industry is one of the very few that scored a net gain in the first quarter of this year. While sales were virtually unchanged increased efficiency and a more profitable products mix led to a modest 3.2 per cent increase in total industry profits.

But it wasn't all clear sailing. Possibly the most striking case in point is **Pet Milk** which has been far behind the pack in diversifying its operations to reduce dependence on evaporated milk. Never particularly successful in the profit margin column, the company's difficulties this year are compounded by lower sales and belated expansion costs that are running almost twice depreciation accruals. Considering the drastic drop in net income to 29¢ per share from 66¢ in last year's opening period, and the depleted cash and working capital position, the current $1.60 dividend rate may be in jeopardy.

Throughout the food industry, however, the more progressive companies had nothing to apologize for in the first quarter. **General Foods** raised its earnings an impressive 23 per cent on only a modest sales increase, while most companies at least approached the industry average.

Once away from the foods (and the drugs), however, the non-durable picture is not as attractive as the term "durable goods recession" might indicate.

It is significant, moreover that the non-durable goods industries are characterized by relatively low labor costs, so that the answer to their difficulties must be found elsewhere. To illustrate, labor costs for the petroleum companies covered in our table account for between 13% and 19% of total costs, while for the machinery companies they run to 45%, and in the primary metals industry these costs run to approximately 35 per cent.

Poor Comparisons in Oil Industry

In the oil industry comparisons are complicated by the exceptionally strong showing the industry made in the first quarter of 1957 towards the end of the Suez crisis. Nevertheless, a look at the poorer performers indicates that operations were off sharply even if normal comparisons could be made. **Atlantic Refining,** for example earned only 26¢ in the first quarter of this year, but, while the $1.61 earned in the same period last year was probably abnormally high, the fact remains that the company has earned $1.06 or more in each first quarter since 1951. Thus by any standards the current performance is a poor one.

Of course, Atlantic has been hit by a number of factors. Refinery runs have been cut down by the reduction of Texas "allowables" and by the "voluntary" import restrictions imposed by the government. The import situation hurt Atlantic particularly since it had just completed a large east coast refinery designed to process Middle East oil. In addition, the company services the eastern part of the United States which is the most competitive in the country, and the one most subject to price wars. If demand picks up normally in the balance of the year, however, the 50¢ quarterly dividend should be earned.

But even the best acting oils had their difficulties. **Texas Company,** whose earnings skyrocketed in the first quarter of 1957 was back to the same $1.25 earned in the initial quarter of 1956. Closer scrutiny, moreover, reveals that the 20% decline in net this year is due to special factors. Actual operating earnings were down almost 50 per cent, but a sizeable increase in dividends from affiliates made final figures look much better.

With large reserves in the Middle East the current crisis creates uncertainty over the company's immediate future, but that is also true of other companies operating in that area. Even assuming the best of conditions, operating earnings this year do not appear to warrant another 2% stock dividend this year. Cash payments will be retained, however.

The entire petroleum industry is loaded with capacity at the moment, indicating that profitability will be sub-par in the near future even if demand for petroleum products returns to normal.

Acid Taste for Chemicals

The non-durable goods sector figures are heavily weighted by the sharp drop in the oil industry. Therefore if we could remove from the figures the impact of the Suez crisis on last year's oil earnings the overall drop in earnings for non-durable goods producers would probably be less than the reported 32.1 per cent. But, that the decrease would still be large, however, is (*Please turn to page* 550)

Utility Growth Slowing Down

By Ward Gates

DURING the post-war period the demand for electricity in the United States increased 185%, as a result of the sale of millions of household appliances, increased automation in industry and on the farm, the development of air conditioning, etc. This required a huge building program since the utilities had been limping along in the 1940's with very small reserves of capacity.

Back in 1930, as a result of the heavy construction program sponsored by Pres. Hoover to combat the depression, the electric utilities built up a margin of reserve capacity of 65%. But in the ensuing 17 years, peak load jumped 152% while capacity gained only 62%; during the 1930's there was little incentive to construct new capacity, and during World War II material priorities and lack of labor prevented construction. Thus the average reserve by 1947 had dropped to 6%, and some companies in order to avoid break-downs had to reduce voltage, temporarily ration industrial or other power, etc.

In the past decade, however, the reverse trend has occurred. Capacity has increased 157% while peak load gained only 123% so that now the margin of capacity over peak demand has increased to 22%. This reserve is probably more than ample, since a great deal of progress has been made in the post-war period in the pooling of power. Arrangements have been effected by a number of territorial groups (such as the large pool in New England, New York, New Jersey and Philadelphia) for the central dispatching of power—from the cheapest source to the point needed—for substantial economies of operation. Neighboring utilities frequently have different hours of peak load, and thus can profitably exchange power. Also the company with the largest and most modern unit (with lowest cost operation) can run the generator almost continuously, so that at night smaller and less efficient units can be laid off. New computing machines are being introduced in the central dispatching offices, still further improving the efficiency by permitting almost instantaneous calculation of the best power sources and best routing of power.

For these reasons it seems rather obvious that the proportion of reserve capacity required for good service by the average utility is lower than formerly. It is true that a sudden heat wave, with a resulting rush to use air-conditioning equipment, has in the past made it difficult for some companies to take care of the demand. But this was usually at a time when some of the big generators were out of service for the periodic overhaul which custom had scheduled for summer months (when the load was formerly light). Now that this lesson has been learned, it appears likely that necessary maintenance work will be done at other periods of the year and hence it should be unnecessary to supply extra capacity to take care of a heat wave emergency.

However, the utilities in making their plans for the 1958-60 construction program, apparently made little allowance for the possibility of a recession

such as the current one. Large increases in generating capacity were scheduled. As of April 1, 1958 the program of additions to generating plant was as follows (1957 capacity was 130 million kw):

Year	*Number of Units*	*Capacity in Kw*
1958	179	15,761,300 .
1959	113	12,685,700
1960	85	11,398,000
1961	55	7,191,600
1962 and later	27	2,691,600
TOTAL	459	49,728,200

These figures represent a slight cutback (about 5% for 1958 as compared with earlier plans, which it is understood resulted largely from the elimination of overtime work in the construction program. It would, of course, be practically impossible to slow down the 1958 program otherwise, since most of the equipment has been on order for at least two years and cancellations at this stage would presumably carry heavy penalties. The 1959 program has been reduced by about the same percentage. The orders for 1960, on the other hand, have increased about 3%. Orders for later delivery (1960, 1961, etc.) have increased from 4 million kw to nearly 10 million kw, which is a normal development; the indicated addition for 1961 makes the figure 7.2 million, or less than half the 1958 program.

New Construction Slowing Down

It is obvious that the construction program is tapering off. The successive additions to capacity show a decline in each year. Moreover, it seems evident that investor-owned utilities now have some misgivings about future excess capacity since in the first quarter of 1958 they ordered only about 200,000 kw new steam generators—a negligible amount as compared with 2.7 million kw ordered in the first quarter of 1957. It is true that some 3 million kw of hydro generating units were placed in the first quarter, but these represented principally large public power projects—the long-delayed Niagara Falls project being built by the Power Authority of the State of New York, the big public power project in Chelan County (Washington), etc. Apparently private utilities have decided to defer new orders until they can determine the effect of the recession.

Among the companies which have announced cutbacks in their expansion plans are New York State Electric & Gas, Texas Utilities, and Public Service of Indiana. New York State has reduced its 1961 new capacity moderately. Texas Utilities is reducing capital expenditures for this year by about 3%, and next year's by 29%; a big generator scheduled for installation in 1961 has been postponed until the following year. Public Service of Indiana recently announced that it might slow some construction work, and that it was overhauling its general program.

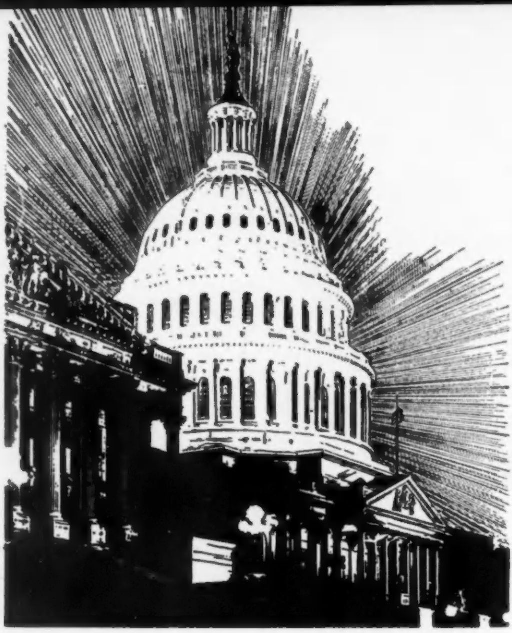
Thus far the electric utilities have not had much occasion to worry about any excess capacity. Share earnings have continued to increase and recent reports showed average gains of about 4% over the previous periods. However, average plant account increased about 10% in the year ended March so that substantial sales of bonds and preferred stocks were necessary. With the high money rates which prevailed for much of 1957, interest on funded debt increased 19% in the month of March compared with last year, and for the twelve months ended March more than 15%. This did not affect net income too seriously because more than half of the increase in interest was offset by a bookkeeping item called "Interest on Construction Credit." This is an arbitrary credit (usually at the rate of 6%) on the amount of cash put into new construction. After the new property is placed in operation the credit stops, the theory being that it will be replaced by actual new earnings. However, this is not always the case, particularly if there is excess capacity. Thus there may be some concern for future utility earnings if the bookkeeping credit ends and the new property does not "earn its keep."

Considerations for the Utility Investor

There is however another factor which will tend to bolster the net earnings of certain utilities. This is the use of accelerated (sometimes called "liberalized") depreciation in income tax returns. This has the effect of reducing Federal income taxes and thus increasing net earnings. Also the amount of savings automatically increases every year for a considerable period of years—assuming continued normal growth. A number of the larger utilities including Consolidated Edison, Niagara Mohawk, General Public Utilities, New York State Electric & Gas and Philadelphia Electric, together with others in New England and the Pacific Northwest, carry these savings through to earnings but the great majority of electric utilities cancel out the savings by setting up a bookkeeping item called "Deferred Taxes." It is possible that as a result of rate decisions, particularly in California, additional companies might decide to carry the tax savings through to net income. In any event, the use of accelerated depreciation, with its regular yearly increase in tax savings, is a favorable factor for the earnings picture as a whole. However, there is always some slight danger that an Administration less favorably disposed towards utilities than the present one might decide to end this benefit and cancel the provision which was inserted in the 1954 Tax Code.

Electric utility stocks have enjoyed a very substantial advance since last October. They proved vulnerable last summer to the threat of higher interest costs but when the Federal Reserve eased the credit situation last fall, utilities became popular again. They also were sought after by investors who were afraid to buy industrial issues during the recession, and considered utilities to have "defensive" quality. Thus, the Dow Jones Utility average has advanced nearly 30% since last October, much more than recovering the ground lost in last summer's dip. The so-called "growth" utilities are again selling at a record 20-22 times current earnings.

Considering the fact that electric utility earnings have been favored recently by weather conditions (the cold spring, plentiful hydro, etc.), and to some extent by special bookkeeping methods, it would appear that the majority of them are rather fully priced at this time. The "war scare" in progress as this is written, which has stimulated industrial stock prices, seems to be working unfavorably for utilities which are showing moderate declines. END



Inside Washington

By "VERITAS"

BARGE OPERATORS want it known that it isn't only the railroads and the air lines that are suffering from business slack. The Inland Waterways Common Carriers Association has computed an 11 percent drop in barge tonnage, loadings, and gross freight revenue for May of 1958, compared to the same period of 1957. The figures cover the most active waterways and lines which serve 28 states bordering the Mississippi, Missouri, and Ohio Rivers and their tributaries as well as the Gulf Intracoast Waterway. The data were submitted to Members of Congress. No proposals for legislative aid were advanced but the barge lines don't want to be harmed so competitors may be helped.

WASHINGTON SEES:

James R. Hoffa's bold attempt to gather within the orbit of his power all unions concerned with transportation may be blocked by the court-appointed Board of Monitors which supervises his provisional presidency of the Teamsters. If the Monitors fail, every resource of AFL-CIO will be thrown into a campaign to stop Hoffa before he attains the goal of a union federation as strong as the one that bounced him for unethical conduct.

The larger concern, the public interest, appears to have no advocate to speak for it. The prospect of James R. Hoffa being able to put the brakes on most forms of surface transport-for-hire (the Airline Pilots have rejected his bid) is a nightmarish outlook. But if he succeeds he can stop the trucks and probably tie up the docks and piers. The National Maritime Union already has signed up and the Seafarers International union is ready to come into the pact "to promote jurisdictional peace, mutual assistance, and stability in transportation." Those are the declared purposes. Nobody in labor-management circles seems to doubt that the objectives will be enlarged to include organizing and collective bargaining.

The Hoffa plan could backfire. The trend toward private carrier operation has been accelerated in the past few years. More and more companies are equipping with one, or a few trucks, hauling on their own account and without the necessity of negotiatiing with the teamster boss for the privilege of remaining in business.

ADVERTISING practices of business and industry seem to be attracting an unusual amount of penalizing attention from government agencies, paradoxically at a time when national advertisers are being urged to allocate $10 million worth of paid space and time to promotion of Federal undertakings. Internal Revenue Service and the Federal Power Commission have ruled out utility ads as "ordinary and necessary expenses" because they oppose TVA-type operations in favor of private, taxpaying enterprise; also the costs can't be deducted from taxable income or used in the rate-making bases. Now the Renegotiation Board says Boeing's $300,000 ad outlay wasn't essential to fulfillment of government contracts. The company has appealed to the U. S. Tax Court.

ORGANIZATION of the National Council for Industrial Peace may mean more grief for Senator William R. Knowland in his run for the governor's chair in California. The founders profess to see labor-management strife put down if right-to-work laws are defeated and they have marked out California for the first big test: right-to-work will be one of the "questions" on the November ballot. Significantly, the triumvirate running the show consists of Mrs. F. D. R., Herbert Lehman the former democratic Senator from New York, and John M. Redding, one-time publicity chief for the demmies national committee.

SALVAGE operations for the Federal wage-hour expansion bill have been started by labor unions. Facing the prospect of reporting to locals that they accomplished nothing affirmative (although they had a hand in stopping legislation to end abuses) union officials headquartered in Washington would settle today for a fractional part of the 10 million additions to wage-hour law jurisdiction: retail employees in stores employing 50 or more persons regularly. But the offer comes too late. Too much controversy and too little time to resolve it is the explanation.

As We Go To Press

▶ With Congress showing no disposition to close tax loopholes, the Internal Revenue Service is moving on on its own to snag fugitive dollars. IRS is operating within the narrow limits of a Public Law aimed at flagrant violators of the requirements of withholding tax regulations. The field would appear to be a constricted one, productive of little revenue. Early indications are to the contrary. District collectors are moving under a criminal misdemeanor statute that could bring fines and jail sentences. The penalties are provided in situations where the delinquent employer, after notice is served on him, fails to deposit withheld funds within two days after collection, in a separate bank account in trust for the United States.

▶ Enforcement should not be costly. IRS says the vast majority of employers report and pay withheld taxes properly. But the numerically few who chronically violate include some managements which have been making use of government money with considerable incidental profit.

▶ The practice of "double withholding" isn't confined to Federal incomes. According to the Illinois State Department of Revenue, approximately 80,000 Illinois retail taxpayers owe the State of Illinois $24.5 million in collected sales taxes — cash collected from customers at the time of sales. It is a reasonable assumption that Illinois retailers differ little from those of other states in which transactions' taxes are collected at the sales level. But the enforcement problem is a staggering one: isolating the taxable from the tax-free in mercantile operations presents an auditing task which, according to the Illinois State Department of Revenue, would capture only about 15 percent of what is believed to be due in that state.

▶ The Federal Power Commission has presented some interesting data to Congress dealing with experience with the fast write-off policy. The FPC's chief accountant reports that in the 1955-1957 period, private utilities were "subsidized" to the extent of $2,621,318,000. Public power advocates on Capitol Hill were quick to point out that this means the private operations were subsidized in a two-year period in an amount that exceeds the total government investment in the Tennessee Valley Authority through a quarter of a century. They also dredged up these additional facts: If TVA had been a private utility it would have paid taxes of $170 million over the past 24 years. But its earnings, after deducting interest that would have been paid on invested capital during the same period would be $212 millions — giving the government $42 million more than would have been paid in taxes under private ownership, backers say.

▶ The Veterans Administration is sounding sentiment on Capitol Hill for another increase in allowable interest on insured mortgages. This comes because VA home loan applications are running more than twice as numerous for new construction as for existing properties. The rate recently was upped to 4 3/4 per cent; business had been slowing to a standstill. The higher interest attracted plenty of money for new construction, especially in the usual situations where many units were covered in a single project. But existing homes do not permit such lumping together.

▶ A favorable economic indicator is glimpsed in the fact that defaults on home mortgages insured under the FHA program or guaranteed by the Veterans Administration constitute an extremely low percentage of the total of such loans outstanding. Latest complete figures carry to June 1: there were 2,386,360 FHA insured mortgages in force of which only 11,947 or one-half of one per cent were in default status, and only 4,819 were on the point of foreclosure. As of the same date, VA reported a total of 3,886,960 GI mortgages outstanding, of which 45,684, or 1.18 per cent were in default, and a minuscule 4,400 were labeled "serious default".

Labor has it all figured out: the way to bring down commodity prices is to increase wages. Says the International Association of Machinists: "The prices of many of the manufactured items we buy for our homes — appliances, furniture and clothing — are not much higher, if any, than they were five years ago. In the case of electrical appliances — sewing machines, washing machines, vacuum cleaners and the like — prices are actually less today than they were in 1953, according to the U.S. Labor Department Index . The wages of the men and women who made these appliances have been rising slowly but steadily during this five-year period. The determining factor is not the wage rate but the unit labor cost. Management lowers unit labor cost by retiming, downgrading, reclassifying and automation. These cut the unit labor cost and permit prices to come down while wages go up."

The impact of repeal of the Federal freight tax is expected to be reflected in the cost of living indexes after Aug. 1. Every shipper using for-hire vehicles will benefit and in the case of the ultimate consumer the benefits can pyramid. Savings will be much greater than the three per cent figure suggests: most goods are shipped several times in the transition between raw material and finished product, and the tax is paid each time. Cotton, for example, may be shipped six times between the boll stage and the shirt on the retailer's counter — six applications of the three per cent tax. Virtually every item in the BLS cost-of-living computation is shipped at least a few times.

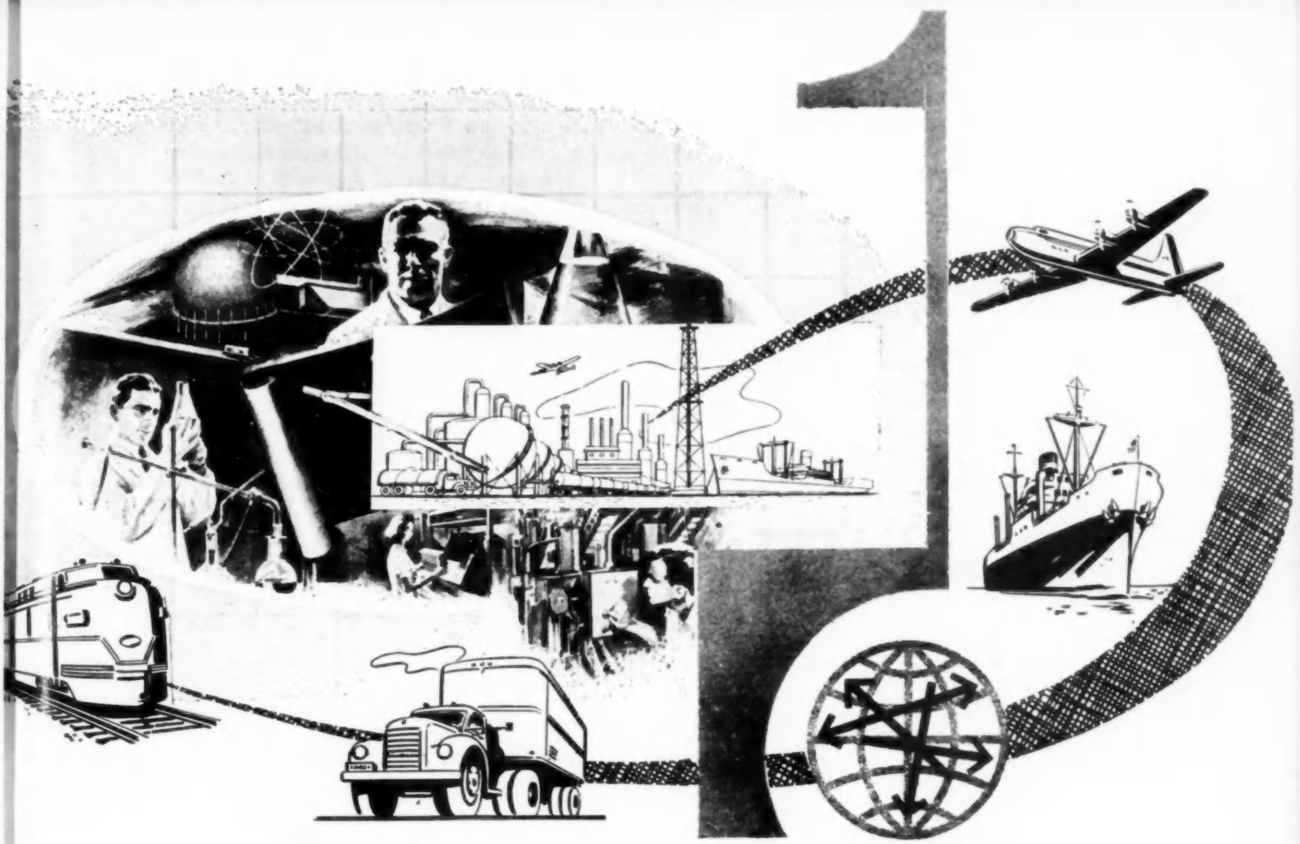
Russia's critical problem today is food shortage. With winter coming on it is becoming more aggravated. The country has failed for four decades to keep its food production abreast of a growing population, has been dropping back. Result is exorbitant prices for nutritional needs which are in crucially short supply. Senator Allen J. Ellender, Senate agriculture committee chairman, returned from a trip to Moscow with the report: Many Russian people have only black bread, cabbage, potatoes, beets and a pot of tea for dinner. It is estimated that per capita food production of the communist nations is still 8 per cent below their per capita pre-war averages.

Failure to feed an expanding population constitutes the first challenge to world communism. Nutritional standards are extremely low and agriculture has stagnated while emphasis was given to heavy industry. Pressures are steadily mounting within the Soviet and in the satellite countries for more to eat. Before the communist revolution, Russia was a principal wheat exporter in the world markets. But in 1956, the Soviets imported 15-million bushels of wheat from Canada and additional tonnages from Argentina and Australia. All of the temperate zones in Russia are under collectivist cultivation. There are no promising new lands available for corn and feed grains.

The U.S. Department of Agriculture is authority for the statement that Russia is almost totally lacking in quality breeding stock. There is a dangerous shortage and backwardness in refrigeration and processing equipment. Transportation is uniformly inadequate. Russia's food crisis would have developed 10 years ago were it not for tremendous lend-lease shipments during wartime.

Congress is aiming at an Aug. 9 quitting date. The House of Representatives probably could wind up its business by then, assuming no hitches arise, but it's doubtful that the Senate can clear its desks before mid-August, possibly later. This does not mean that the upper chamber is a slower moving body; appropriations bills must arise in the House and the bulk of "must" legislation which ties up the Senate each year is composed of money measures.

Besides appropriations measures, two House tax bills are certain to be voted on — up or down. One deals with cost-of-living adjustments in social security benefits and the other concerns small business relief. Each is a controversial proposal but each has election year appeal. It isn't certain yet what the House will do with labor legislation: senate-passed bills deal with fund disclosure and registration, and are concerned with the rights of individual workers — except the basic right to remain a worker if a union decrees otherwise. Mutual security, reciprocal trade, and Pentagon reorganization have run into stormy weather and tactics of delay. The White House counts all three as fundamental to its program. Success will be partial.



What the U.S. is doing to counteract Soviet economic warfare

By Martin Jiri Kallen

Editor's Note: *(In the July 19 issue of THE MAGAZINE OF WALL STREET, Martin Jiri Kallen analyzed the methods and objectives of the Communist bloc in the economic war now being waged to win over under-developed countries. In the following article, Mr. Kallen tells how the United States is leading the Free World in meeting this challenge.)*

BASIC differences in methods and goals are found when the international trade-and-aid programs of the free world are contrasted with those of the communist bloc.

The red combine is using its economic strength and flexibility to achieve objectives which it can no longer attain through armed aggression without fear of free world military retaliation. Nikita Khrushchev put it bluntly: "We value trade less for economic reasons and most for political purposes." In short: Conquest. There is no pretense that long-term business relations based on mutuality are envisioned. Since that is so, the economics of trade don't figure in any of the equations; the future is for tomorrow!

The communists operate their trade programs as a state enterprise. In the totalitarian system there is nowhere else to turn for the wherewithal to carry on. Private enterprise cannot share, or take over, because that system is alien to the communist ideology.

In the Soviet system, import and export being state monopolies, domestic considerations can be ignored. Thus, a communist country can, within very wide limits, manipulate its trade with other countries for purposes of politics and economic aggression. The United States, as a free enterprise economy, cannot compete with the reds in this type of international economic warfare. In the interests of an orderly and expanding United States and world economy, we seek instead to promote opportunities for private trade to expand on the basis of equal opportunities for all with government intervention at a minimum. In a free enterprise economy the government can have an important supporting role but, except in emergency situations, cannot play the principal role. The ultimate decisions as to whether, where and how to expand trade and investment rests with business rather than with government. The government can encourage and facilitate trade and investment. Under our system government agencies can create trade only to a limited extent and under very special circumstances such as, for example, in

connection with our program for disposing of agricultural surpluses.

Advantages We Have

Does that mean that a democracy enters the competition for international business with the cards stacked against it? Not at all! We have many major weapons in this cold battle. The United States is the world's largest exporter of both agricultural and industrial products. It is the world's major provider of capital and technical assistance. Our government agencies play a dual role in aiding foreign trade and investment: to create a favorable climate; to assist in the day-to-day conduct of trade and investment.

An example that is cited for its simplicity is the operation of the Export-Import Bank: The Bank lends money to a foreign operating subsidiary of an American-owned public utility in order that it may expand its electric power facilities and the arrangement is regarded as a direct aid to the utility company and also to the manufacturer of equipment needed for the expansion. However, if we look at the operation one step removed the loan may have the effect of increasing the production of the area and thus making it a better market for American exports and for products of American private enterprise located in the country.

U.S. & Sino-Soviet Bloc Economic Assistance To Certain Near Eastern & Asian Countries

July 1, 1955-February 1, 1958

Millions of U.S. Dollars

	ICA† Obligations	Other U.S. Govt.[1]	U.S. Private Investment*[2]	Total U.S.	Total Sino-Soviet Bloc
Afghanistan	33	14	N.A.	47	136
Burma	25	18	N.A.	43	42
Cambodia	94	2	N.A.	96	22
Ceylon	11	......	N.A.	11	20
Egypt	2	14	N.A.	16	235
India	126	293	N.A.	419	295
Indonesia	27	97	N.A.	124	109
Iran	114	26	N.A.	140	......
Iraq	7	......	N.A.	7	......
Israel	51	37	N.A.	88	......
Jordan	28	......	N.A.	28	......
Lebanon	16	......	N.A.	16	......
Nepal	7	......	N.A.	7	13
Pakistan	204	68	N.A.	272	......
Philippines	63	72	N.A.	135	......
Saudi-Arabia	......	......	N.A.	......	......
Syria	......	......	N.A.	......	194
Thailand	73	2	N.A.	75	......
Turkey	166	56	N.A.	222	10
Yemen	......	......	N.A.	......	16
GRAND TOTAL	1,047	699	213	1,959	1,092

N.A.—Not available.
†—International Cooperation Administration
*—U.S. Private Investment for 3 years 1954-56.
1—United States Government assistance includes agricultural sales under Public Law 480, ICA obligations and Export-Import Bank loans.
2—Of the private investment figure for the United States—$213 million—it is estimated that not less than 60% or $128 million is in oil and not more than 40% or $85 million in other types of investment. The figures relate to new United States private investment during the three calendar years 1954, 1955 and 1956.

In a somewhat narrower perspective, our foreign economic policy as now practiced has among its purposes the creation of a climate conducive to successful business operations by traders and investors. The Soviet aims fail to touch these goals at any point and therefore fail to hold out to any beneficiary country the prospect of permanence, stability, something to show for the deal. And it has strings attached in the form of subservience, political affiliation, domination.

Against the communist proposals, the free world led by the United States offers economic aid programs through technical assistance, through our membership in the World Bank, and International Finance Corporation, and through the lending policy of the Export-Import Bank. We encourage the economic development of other countries for mutual benefits: we seek to expand markets for American made goods and to promote the development of more secure sources of supply for needed raw materials, and the creation of an economic base for conditions under which investors can place their money with a greater sense of security. There are no political strings, no interference with the domestic government.

The selling job on behalf of the United States is never handled (as is the case with the Russians) by ponderous diplomatic or military missions. The U.S. Department of Commerce has a soft sell which has proved to be successful where heavy handed propaganda has failed. It centers on the Trade Missions Program, which at first was an adjunct of the Trade Fair Program but now has separate status. These trade development missions have been successful in clearing up misunderstandings abroad about our foreign economic policy and in providing traders of other countries with specific information to help them in their economic relations with the United States.

Our Trade Missions

These missions, normally consisting of three businessmen under the leadership of a government representative, spend up to two months discussing two-way trade and private investment with businessmen and government leaders in the host country. They hold meetings and individual consultations in the major trading centers and set up information booths at Trade Fairs if any are operating in the locality. They explain ways of doing business in the United States. They explore trade opportunities. They talk about availability and methods of obtaining United States private capital and technology, trade and investment policies. The Commerce Department pays only travel expenses and government per diem. In all, 47 missions, including 121 business leaders, have visited more than 400 cities in 35 countries. They have made more than 125,000 business contacts and have met in group and individual consultations with about 28,000 foreign businessmen. They have filed reports on more than 1,100 business opportunities for United States foreign trade or investment. It is

impossible to estimate the dollar potential of these opportunities but the leads recently developed in one country exceeded $30 million.

Balance of Payment Consultations

Impossible under the communist trade system but most effective under the Free World program for sound economies are the balance-of-payments consultations, such as the one recently completed at Geneva. These consultations were held with Denmark, Norway, Sweden, Italy, The Netherlands, Greece, Austria, and Germany. Under the General Agreement on Tariffs and Trade (GATT), countries maintaining restrictions on trade for balance-of-payment reasons agreed to consult upon request regarding their need for continuing such restrictions and the manner in which they apply them.

Two Western European countries announced the removal of import restrictions on an important range of goods from the United States and other dollar countries. New measures of liberalization were taken by Sweden and Italy. In addition, Austria and Germany announced they would take comparable steps in the near future. The Federal Republic of Germany is making studies which are expected to bring its policy into line.

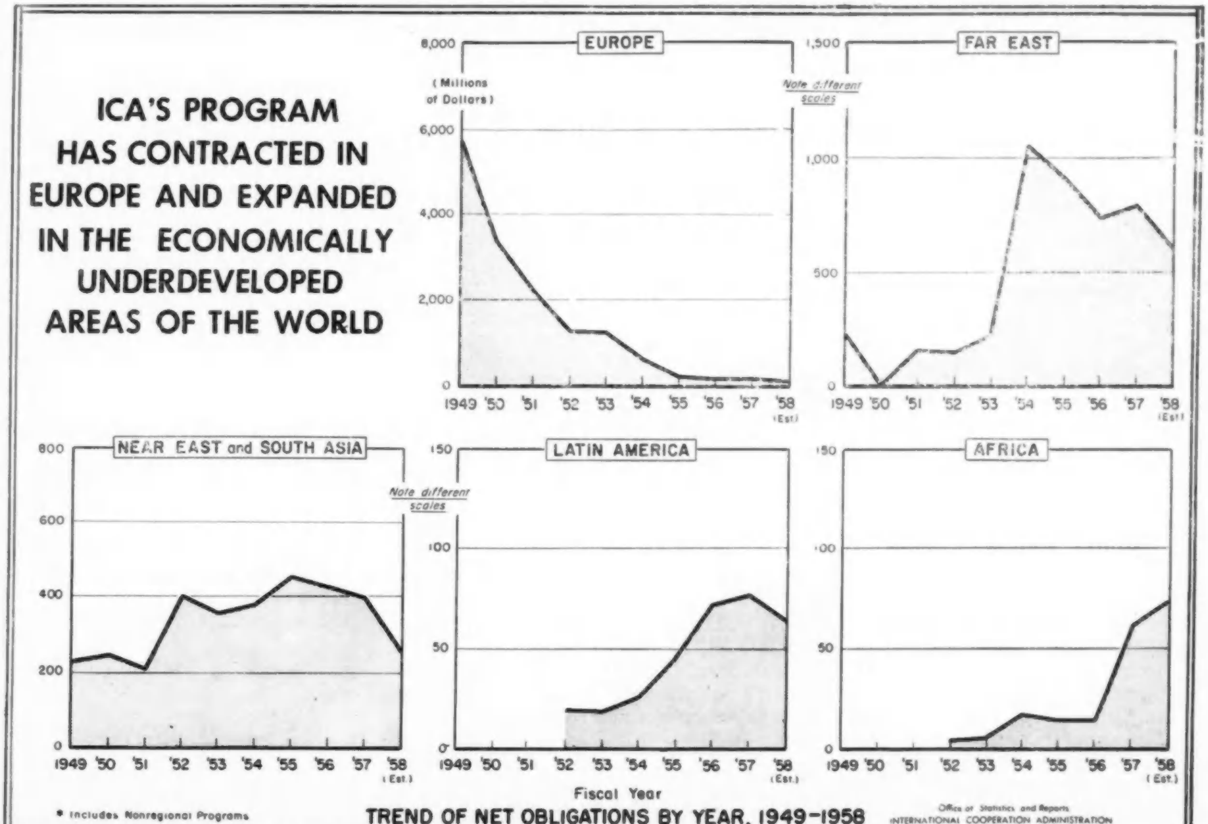
In addition to the new liberalization measures made public, a number of the consulting countries reported other recently-adopted rules which reduce restrictions against dollar imports, thereby placing them on a more equal competitive basis with similar goods from non-dollar areas. Under Norway's import quotas, for example, dollar goods are normally treated as favorably as any other goods. The Netherlands and Greece reported that, for most practical purposes, dollar and non-dollar goods are treated equally and that remaining quantitative import restrictions are negligible.

Free World vs. Soviet System

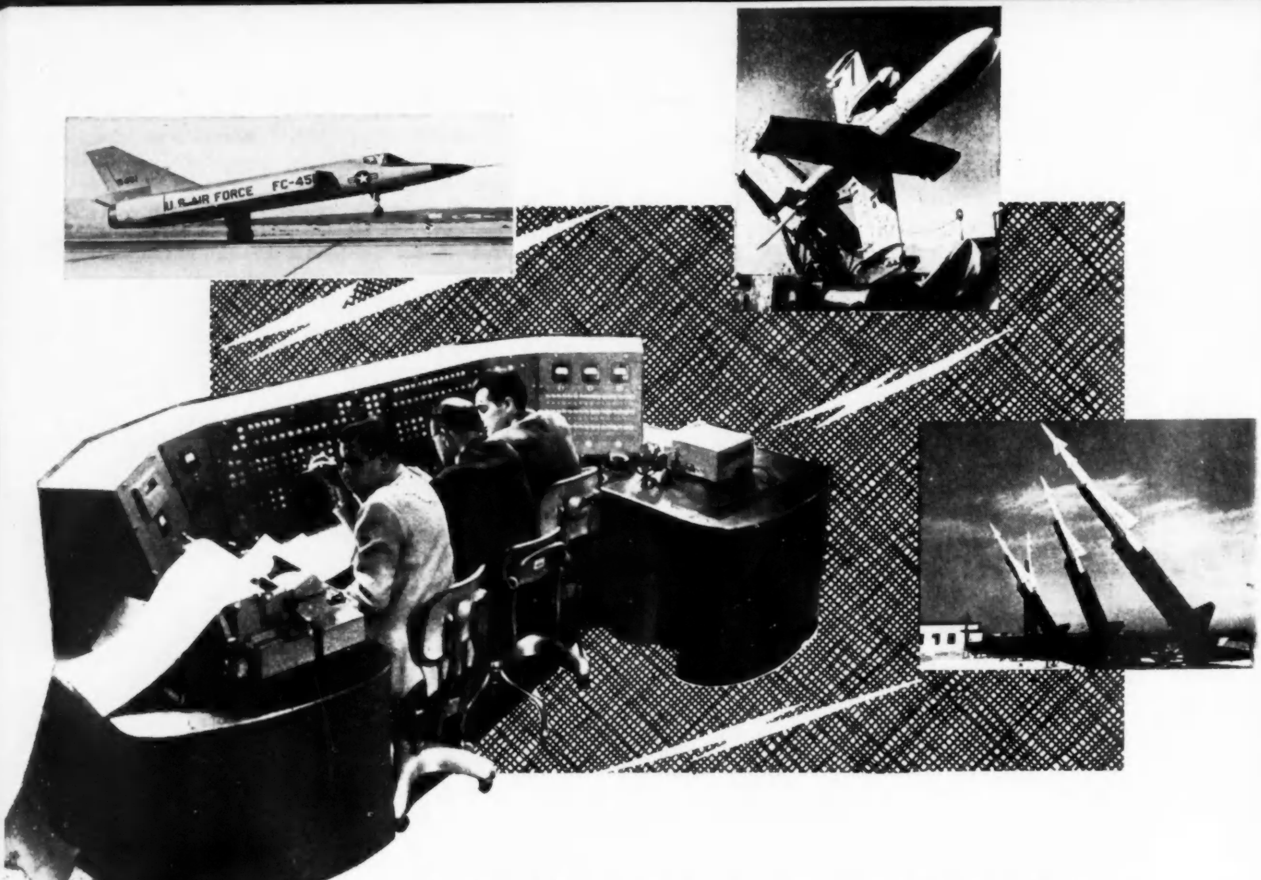
That marks tangible progress under the Free World system; progress which cannot be matched under any Soviet agreements which exist or are in prospect. And, additionally, balance-of-payments consultations are planned for September and October, affecting the policies of the following Nations: France, Turkey, Finland, Japan, United Kingdom, Rhodesia and Nyasaland, Australia, Ceylon, New Zealand, Pakistan, Union of South Africa, and India.

It has been charged by some that reciprocal trade agreements which this country has entered into, have not been, in fact, reciprocal; that we have reduced our duties without receiving in return equivalent reductions from contracting parties. When this was brought to the attention of Commerce Secretary Sinclair Weeks, he demurred:

"By the best estimates we have been able to make, we have obtained concessions from other countries—that is, duty reductions or bindings—on some $7 billion of United States exports, of which at least one-half would be exports of goods that pay duty in the importing country. For our part we have granted concessions on about $7 billion also, but about three-fifths of this amount has (*Please turn to page* 546)



TREND OF NET OBLIGATIONS BY YEAR, 1949–1958



Hopeful Signs vs. Troubled Spots for

Electronic and T V Companies

By Stanley Devlin

DESPITE the amazing growth of electrical equipment and electronics throughout the entire industrial, defense and civilian economy, the industry generally continues to turn in a sub-par earnings performance. First quarter statements, in fact, made fairly unattractive reading, and the equipment group had the dubious distinction of being one of only two industrial groups that suffered a net decline in the market between January and the end of June, 1958.

As in past years, at least one segment of the industry did well, but gains were offset by setbacks in other fields. The television broadcasters held their own in the early part of the year, and electrical equipment shipments starred as one of the few bright spots in the entire capital equipment picture. But at the same time military electronics still suffered from the effects of last year's mid-year stretch-out of defense payments, appliance sales remained weak and televisions set sales just about held their own. Radio and phonograph sales suffered a slight abatement in the recovery that began late last year, but showed every sign of doing better as the year progressed.

At the moment there are definite signs that the pattern is changing, but still there are no indications that all segments of the industry will join forces in an upward move that would work magic on company profits. To enumerate just a few of the conflicting trends, household appliances, at least of the smaller variety such as toasters and irons, have taken a definite turn for the better, but sales of television advertising time are lagging for the broadcasters. Military electronics orders have begun to flow at a fast pace in line with the new emphasis on guided missile production, but industrial electrical equipment is backward along with other forms of capital equipment. Generating equipment while scheduled for strong shipments through 1958 is slated to recede substantially in 1959.

Obviously, then, near term earnings for companies in the industry will depend in no small measure on their degree of specialization in the advancing or receding fields, or in their product mix and the success they have in swinging rapidly from emphasis on declining products to rapid production of items coming into heavy demand.

Outlook for Heavy Electrical Equipment

In this framework, a rundown of each of the major electrical and electronic fields will place the outlook for individual companies in proper perspective.

Leading Electrical & Electronic Equipment Producers

	Full Fiscal Years: Net Sales 1956 —(Millions)—	Net Sales 1957 —(Millions)—	Net Profit Margin 1956 %	Net Profit Margin 1957 %	Net Per Share 1956	Net Per Share 1957	Dividend Per Share 1957	Dividend Per Share Ind. 1958*	1st Quarter Net Per Share 1957	1st Quarter Net Per Share 1958	Price Range 1957-1958	Recent Price	Indicated Div. Yield
INDUSTRY LEADERS:													
GENERAL ELECTRIC W.C. (mil.) '56—$590.3 W.C. (mil.) '57—$618.6	$4,090.0	$4,335.6	5.2%	4.9%	$2.45	$2.84	$2.00	$2.00	$1.47[9]	$1.18[9]	72⅜-52⅜	60	3.3%
WESTINGHOUSE ELEC. W.C. (mil.) '56—$687.2 W.C. (mil.) '57—$706.7	1,525.3	2,009.0	.2	3.6	.10	4.18	2.00	2.00	.82	.73	69⅝-52⅜	56	3.5
ELECTRONIC CONTROLS:													
AVCO MFG. W.C. (mil.) '56—$68.2 W.C. (mil.) '57—$74.0	320.5	314.8	[d]5.1	4.0	[d]1.84	1.38	.10	.40	.56[9]	.67[9]	7¾- 4⅞	7	5.7
BECKMAN INSTRUM. W.C. (mil.) '56—$7.8 W.C. (mil.) '57—$6.3	29.3[1]	38.0[1]	5.9	.5	1.36[1]	.16[1]	[6]	...	.60[2]	[d] .32[2]	47¾-18⅛	20	...
BENDIX AVIATION W.C. (mil.) '56—$112.5 W.C. (mil.) '57—$126.1	581.4	711.2	4.1	3.8	5.04	5.44	2.40	2.40	2.57[3]	1.73[3]	66¾-42	56	4.2
CONSOL. ELECTRODYNS. W.C. (mil.) '56—$ 9.0 W.C. (mil.) '57—$12.5	25.0	30.5	5.1	2.5	1.35	.73	.40	.40	.24	[d] .05	54¾-25⅛	30	1.3
DAYSTROM, INC. W.C. (mil.) '56—$26.3 W.C. (mil.) '57—$23.2	74.4[4]	81.7[4]	3.3	2.8	2.77[4]	2.57[4]	1.20	1.20	N.A.	N.A.	47 -27½	34	3.5
GEN. PRECISION EQUIP. W.C. (mil.) '56—$47.4 W.C. (mil.) '57—$53.2	153.2	185.0	1.5	2.3	1.63	3.03	2.40	1.00	.85	.16	47¼-28½	31	3.2
INT. TEL. & TEL. W.C. (mil.) '56—$203.9 W.C. (mil.) '57—$200.8	544.8	638.6	5.1	3.5	3.92	3.12	1.80	1.80	.82	.84	38⅞-25¾	37	4.8
MINN. HONEYWELL REG. W.C. (mil.) '56—$111.8 W.C. (mil.) '57—$131.8	287.9	324.8	7.7	6.9	3.40	3.07	1.75	1.75	.79	.61	131 -73½	90	1.9
RAYTHEON MFG. W.C. (mil.) '56—$38.0 W.C. (mil.) '57—$45.4	111.8[5]	259.8	.5[5]	2.6	.23[5]	2.42	...	[7]	.40	.58	35½-16⅜	32	...
TEXAS INSTRUMENTS W.C. (mil.) '56—$ 9.2 W.C. (mil.) '57—$11.1	45.7	67.3	5.1	5.6	.72	1.11	...	...	.25	.34	42¾-15⅞	41	...
TUNG-SOL ELECTRIC W.C. (mil.) '56—$15.1 W.C. (mil.) '57—$24.4	53.8	64.1	5.4	4.8	3.84	3.31	1.40[8]	1.40	1.25	.52	37½-21¾	27	5.1

N.A.—Not available.
(W.C.)—Working capital.
[d]—Deficit.
[1]—Year ended June 30.
[2]—9 months ended Mar. 31.
[3]—6 months ended Mar. 31.
[4]—Years ended March 31, 1957 & 1958.
[5]—7 mos. ended Dec. 31, 1956; fiscal yr. changed.
[6]—Paid 3% stock.
[7]—Paid 5% stock thus far in 1958.
[8]—Plus stock.
[9]—1st 6 months.
*—Indicated dividend for full year.

General Electric: Current operations indicate some recovery in the latter part of the year. Equipment sales will probably slow in 1959, however, making dividend increases doubtful. (A2)

Westinghouse: Poor first quarter will lower earnings for the year to about $3.50 per share. $2.00 dividend is secure, but earnings growth will slow over near term. (B3)

Avco Manufacturing: Primarily a defense producer, operations should be satisfactory for the next several quarters indicating continuation of at least the current dividend. (C1)

Beckman Instruments: Sharp earnings drop early this year will probably level off now, but cash dividends cannot be expected for some time. (C3)

Bendix Aviation: Defense missile program is now moving into high gear and Bendix will be among the main beneficiaries. Dividends are secure. (B1)

Consolidated Electrodynamics: Upheaval in the defense program caused earnings to decline in last two quarters. Some improvement expected. (C2)

Daystrom: Company has been insulated from defense stretchouts and has been only moderately affected by the recession. At least $1.20 expected, with a year end extra possible. (B2)

General Precision Equipment: Share earnings drop and reduced dividend mark company's low water mark. Increasing defense business should lead to improvement from now on. Reduced dividend will be maintained. (C3)

International Tel. & Tel.: Good earnings increase expected this year, bolstered by full operations of the DEW LINE and WHITE ALICE defense communication networks. (B1)

Minneapolis-Honeywell: Poor first quarter and unprofitable computer division will limit earnings growth this year. Second half should be better than the first, indicating no jeopardy for the dividend. (A2)

Raytheon Mfg.: Successful defense contracting leading to much higher sales. Earnings should advance in 1959 and cash dividends may be resumed. (C1)

Tung-Sol Electric: Heavy inventory cutting by customers reduced earnings in first quarter, but dividend was covered. No change seen. (B3)

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive.

1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

Because of its dominance by the two giants of the industry, General Electric and Westinghouse, the outlook for generating equipment is of prime importance.

It has been said, and with truth, that the electrical equipment industry is doubly blessed. Increases in the use of appliances and industrial electrical equipment lead in turn to increases in the need for generating and distributing capacity, which in turn allows for greater utilization of electrical equipment. Since both types are turned out by the electrical equipment industry, the rapidity of its growth is understandable. The enormous expansion of industry in the past five years has kept utilities constantly hopping to maintain adequate capacity to fill the kilowatt requirements of their customers. As a re-

Leading Electrical & Electronic Equipment Producers—(Continued)

	Full Fiscal Years: Net Sales 1956 (Millions)	Net Sales 1957 (Millions)	Net Profit Margin 1956 %	Net Profit Margin 1957 %	1956 Net Per Share	1957 Net Per Share	Dividend Per Share 1957	Dividend Per Share Ind. 1958*	1st Quarter Net Per Share 1957	1st Quarter Net Per Share 1958	Price Range 1957-1958	Recent Price	Indicated Div. Yield
ELECTRICAL EQUIPMENT & CONTROLS:													
ALLIS-CHALMERS W.C. (mil.) '56—$267.5 W.C. (mil.) '57—$257.6	$547.4	$534.1	3.7%	3.3%	$2.42	$2.11	$2.00	$1.00	$ .61	$ .27	36¼-20⅞	25	4.0%
CUTLER-HAMMER W.C. (mil.) '56—$21.7 W.C. (mil.) '57—$20.8	79.3	74.8	8.8	8.0	5.23	4.51	2.50	2.00	1.23	.81	64¾-38½	51	3.9
FEDERAL PACIFIC ELEC. W.C. (mil.) '56—$13.5 W.C. (mil.) '57—$14.3	39.2[1]	49.5[1]	4.6	4.9	2.13[1]	2.5. [1]	.80[5]	.80	2.02[2]	1.85[2]	25⅜-17⅞	22	3.6
ROBERTSHAW-FULTON W.C. (mil.) '56—$21.4 W.C. (mil.) '57—$22.5	72.6	71.2	5.8	5.5	2.82	2.36	1.50	1.50	.84	.40	36½-20⅞	25	6.0
SANGAMO ELECTRIC W.C. (mil.) '56—$12.4 W.C. (mil.) '57—$12.9	44.2	47.0	6.2	5.8	3.43	3.49	1.80	1.20	1.19	.24	39¾-25	26	4.6
SQUARE "D" Co. W.C. (mil.) '56—$28.6 W.C. (mil.) '57—$26.9	102.3	104.1	11.4	8.7	2.28	1.74	1.00[5]	1.00	.49	.27	35¾-19⅛	21	4.7
ELECTRICAL PRODUCTS:													
MAYTAG CO. W.C. (mil.) '56—$19.4 W.C. (mil.) '57—$22.0	113.0	98.6	7.4	6.7	4.90	3.78	2.40	2.00	.97	1.04	32¾-22	33	6.0
McGRAW-EDISON W.C. (mil.) '56—$68.7 W.C. (mil.) '57—$75.6	248.8	256.6	6.0	5.7	2.96	2.83	1.40	1.40	.89	.39	47 -29⅞	33	4.2
RELIANCE ELEC. & ENG. W.C. (mil.) '56—$16.9 W.C. (mil.) '57—$22.0	64.8	95.4	4.5	6.3	3.48	4.71	1.70	1.80	2.27[3]	1.61[3]	50⅞-30½	36	5.0
SUNBEAM CORP. W.C. (mil.) '56—$33.9 W.C. (mil.) '57—$34.7	121.8[4]	104.9[4]	9.5	8.9	3.75[4]	3.03[4]	1.65	1.65	N.A.	N.A.	57¾-39⅛	50	3.3
WHIRLPOOL CORP. W.C. (mil.) '56—$60.4 W.C. (mil.) '57—$46.5	390.9	402.3	3.6	2.6	2.21	1.61	1.40	1.00	.45	.29	26⅞-15¾	21	4.7

(W.C.)—Working Capital.
N.A.—Not available.
1—Year ended June 30.
2—9 months ended March 31.
3—6 months ended April 30.
4—Years ended March 31, 1957 & 1958.
5—Plus stock.
*—Indicated dividend for full year.

Allis-Chalmers: Good sales of electrical equipment this year and pickup in farm machinery sales should buttress earnings and enhance longer term outlook. Recently reduced dividend should be maintained. (B2)

Cutler-Hammer: Picture is changed by recent acquisition of Airborne Instruments, which will reduce reported earnings. Year end extra is not secure. (B3)

Federal Pacific Electric: Higher sales of utility distributing equipment is sparking an earnings upswing. Dividends safe. (B1)

Robertshaw-Fulton: Exceptionally poor first quarter may lead to worse results in second period. Dividend is well covered by cash earnings, however. (B3)

Sangamo Electric: Recession and housing slowdown caused sharp sales and earnings drop. Cash position is weak indicating possible dividend cut. (C3)

Square "D": Decline in capital spending led to big drop in first quarter earnings. Lower expansion expenses should protect dividend. (B3)

Maytag: Restyled appliance lines led to small earnings upturn in first quarter, but large increase for the year is doubtful. Dividend secure. (C2)

McGraw-Edison: Reduced sales to utility companies and lagging appliance sales reduced earnings early in year. Some pick up should be evident later, supporting the regular dividend. (B3)

Sunbeam: End of "Fair Trade" may cause temporary damage to company's good trade position. Small earnings decline probable this year, but dividend should be maintained. (B2)

Whirlpool: Reduced appliance sales led to big earnings drop in first three months. Earnings for the year will probably cover the 25¢ quarterly, dividend, however. (C3)

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Leading Electrical & Electronic Equipment Producers—(Continued)

RADIO & TV	Net Sales 1956 (Millions)	Net Sales 1957 (Millions)	Net Profit Margin 1956 %	Net Profit Margin 1957 %	Net Per Share 1956	Net Per Share 1957	Dividend Per Share 1957	Dividend Per Share Ind. 1958*	1st Quarter Net Per Share 1957	1st Quarter Net Per Share 1958	Price Range 1957-1958	Recent Price	Indicated Div. Yield
ADMIRAL CORP. W.C. (mil.) '56—$40.7 W.C. (mil.) '57—$40.4	$ 185.8	$ 172.6	5.9%	5.5%	$ .64	$ .41	...	...	$ .24	$[d].04	14⅞- 6½	10	...
AMER. BROAD.—PARA. W.C. (mil.) '56—$41.2 W.C. (mil.) '57—$45.8	206.9	215.8	4.7	2.2	1.78	1.10	$1.00	$1.00	.40	.43	24⅞-11⅝	18	5.5%
COLUMBIA BROAD. A" W.C. (mil.) '56—$74.4 W.C. (mil.) '57—$92.9	354.7	385.4	4.5	5.7	2.13	2.82	1.00[3]	1.00	.77	.83	36⅛-23½	30	3.3
MAGNAVOX CO. W.C. (mil.) '56—$15.5 W.C. (mil.) '57—$18.3	70.5[1]	87.4[1]	4.3	4.3	3.54[1]	3.90[1]	1.50[3]	1.50[3]	3.53[2]	3.34[2]	44 -28⅛	38	3.9
MOTOROLA W.C. (mil.) '56—$50.8 W.C. (mil.) '57—$52.2	227.5	226.3	3.5	3.5	4.12	4.04	1.50	1.50	1.10	.35	51¾-35	39	3.8
PHILCO CORP. W.C. (mil.) '56—$80.6 W.C. (mil.) '57—$79.3	356.5	372.6	.1	1.1	.05	1.00	[4]	...	.21	[d].28	18⅜-11	16	
R.C.A. W.C. (mil.) '56—$303.1 W.C. (mil.) '57—$305.5	1,121.0	1,170.9	3.5	3.2	2.63	2.52	1.50	1.50	.87	.59	40 -27	35	4.2
SYLVANIA ELECTRIC W.C. (mil.) '56—$102.0 W.C. (mil.) '57—$112.0	332.3	342.9	4.4	3.7	4.11	3.48	2.00	2.00	.84	.30	46¼-29⅛	36	5.5
ZENITH RADIO W.C. (mil.) '56—$38.1 W.C. (mil.) '57—$45.1	141.5	160.0	4.3	5.1	6.27	8.29	2.50	4.00	1.68	2.07	86⅝-45⅝	85	4.7

(W.C.)—Working capital. **[d]—Deficit.** **[1]—Year ended June 30.** **[2]—9 months ended March 31.** **[3]—Plus stock.** **[4]—Paid 4% stock.** ***—Indicated dividend for full year.**

Admiral: Deficit operations in first quarter will delay resumption of dividends. Better TV-set margins should lead to better figures in balance of year. (C3)

American-Broadcasting Paramount: Company has proved successful in programming and theatre operations are no longer a drag on earnings. Slower advertising revenues in fall may be in the offing, however. Dividend secure. (B2)

Columbia Broadcasting "A": A continuation of better profits seems in the cards for this excellent company. No change in dividends. (B1)

Magnavox: Continued emphasis on high quality lines has paid off in further earnings advance so far this year. A small dividend increase may be forthcoming. (B1)

Motorola: Poor first quarter should be offset by rising military business and pick-up in radio set sales. Dividends secure. (B2)

Philco: Distribution problems for TV-sets led to sharp earnings drop in first quarter, and no upturn seems in the making. Good defense contracts will not alter bad earnings picture. (B3)

R.C.A.: Good defense contracts should help offset poorer television sales, and broadcasting difficulties. The 50¢ dividend, although narrowly covered in the first quarter, should be maintained. (B2)

Sylvania: Strong upswing from depressed first half expected, affording some safety to the narrowly covered dividend. (B3)

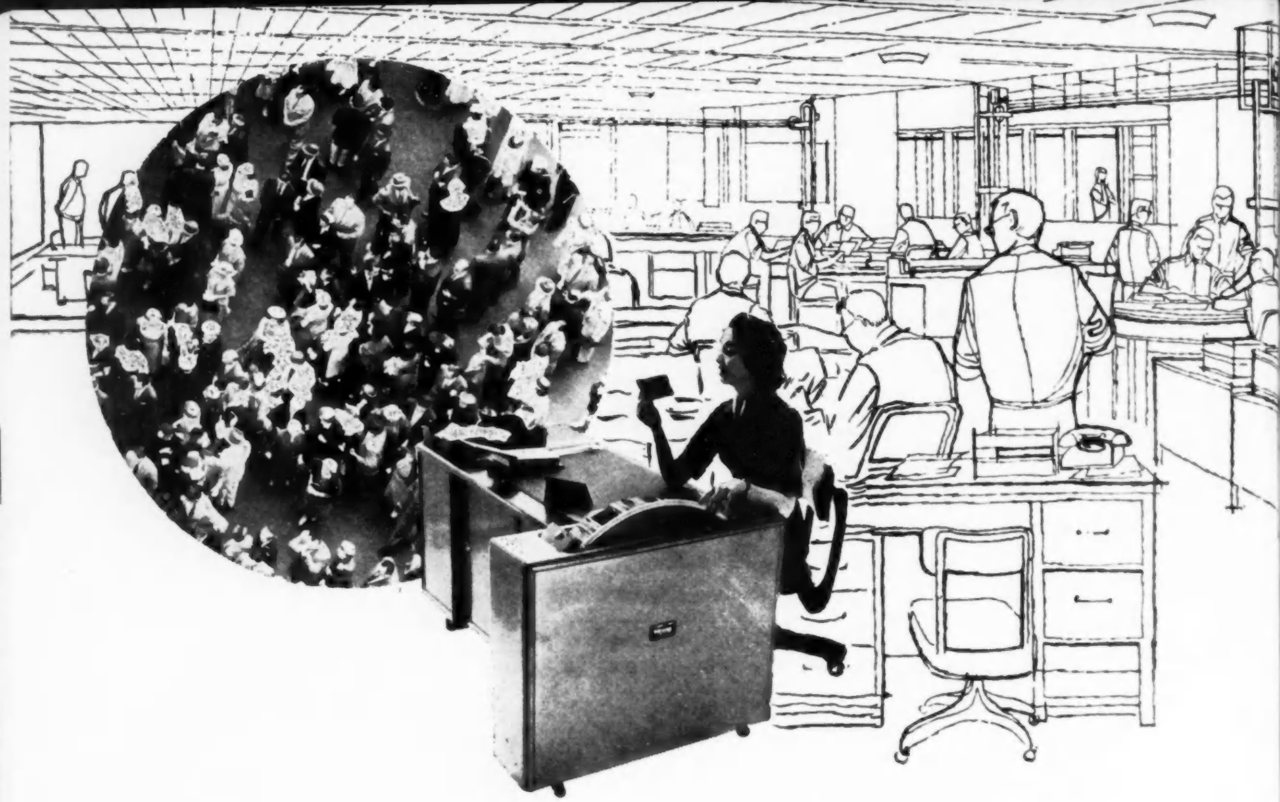
Zenith: Unique industry position and successful operation will continue this year. Extras can be expected, or quarterly rate may be raised. (A1)

RATINGS: **A—Best grade.** **B—Good grade.** **C—Speculative** **D—Unattractive.**

1—Improved earnings trend. **2—Sustained earnings trend.** **3—Lower earnings trend.**

sult, even though capital expenditures have dropped precipitously this year, shipments of generating equipment have been at record levels as orders placed as long as two years ago have reached the delivery stage.

There are indications, however, that 1958 may prove to be the high-water mark for the equipment producers until well into the 1960s. Utilities will continue to increase kilowatt capacity, but even if there had been no recession the rate of increase would begin to slow down in 1959. Kilowatt capacity increased at a compound rate of about 9 per cent in the period since 1950, but few people realize that during that time the Atomic Energy Commission increased its consumption of electricity from less than 3 million kw. in 1950 to 58 million kw. by 1956. This enormous figure accounted for over 10 per cent of all electricity sales in that year. The A.E.C., however, has now cut back to 52 million kw. per year, and has officially estimated that this rate of consumption will be sufficient for its needs through 1970. 57 per cent of the AEC's power requirements are furnished by TVA (now the largest single producer of electric in the country). Most of the remaining power is supplied by Electric Energy, Inc. and Ohio Valley Electric Corp. (OVEC), whose stocks are owned by private utilities. The cutback in AEC requirements indicates that the industry will no longer have the benefit of the extraordinary fillip to generating capacity supplied by the AEC in recent years. As a result makers of generating equipment would be affected even if (*Please turn to page* 541)



Mixed outlook among individual OFFICE EQUIPMENT COMPANIES

By W. A. Hodges

IN THE face of heavy capital cutbacks by most segments of industry, sales of office equipment of all kinds from typewriters to desk-sized computers slumped sharply in the first quarter of the year. By the end of May, however, virtually every company in the computer field had reported a decided pickup in sales, and from all indications the balance of the year should compare favorably with 1957.

As in most fields, the companies with the newest, or most remodeled products are reporting the best results so far, but some gains are appearing in almost all product lines. Thus, the worst fear of the industry in the early months of 1958 that business leaders generally had become disenchanted with the benefits of computers and other types of office automation, appears to have been overstated. As a result, research programs are again moving ahead under full heads of steam.

In contrast to the sales picture, earnings for most companies continue to be punished by the heavy investment in new electronic equipment. Thus, in view of the heavy depreciation charges most firms are racking up, an early return to normal profit margins still seems a long way ahead. Fortunately, however, a sales resurgence will prevent a repetition of the first quarter situation which cut exceptionally deep into the profits of several important producers.

Despite the heavy costs of research and development, it is interesting to note, however, that the least attractive earnings in the first quarter were reported by companies that have still failed to make headway in the electronic equipment field. As a matter of fact, Royal-McBee and Smith-Corona Marchant pared their dividends in the first three months of the year, while Underwood, which was one of the latest entries into the electronic field was forced to omit its dividend entirely for the first time since 1911.

By contrast, IBM, the overwhelming giant of the industry, racked up record sales and earnings in the first quarter and went on to new heights in the second quarter, despite a fairly sharp cut in new orders. Backlogs saved the day for IBM during the lean order period, but a pick up in new business will be needed, to avoid an eventual earnings drop.

Active Sales Promotion Programs

The substantial reversal of the downward sales trend for the industry since the first quarter can be laid to several important factors, but by far the most vital was the industry's refusal to take the situation lying down. By the middle of the first three month period IBM had launched its operation "Spark" to reactivate business interest in electronic office equipment, and other important producers such as Na-

Position of Leading Office Equipment Companies

	Full Fiscal Years: Net Sales 1956 (Millions)	Net Sales 1957 (Millions)	Net Profit Margin 1956 %	Net Profit Margin 1957 %	1956 Net Per Share	1957 Net Per Share	1st Quarter: Net Per Share 1957	Net Per Share 1958	Dividend Per Share 1957	Dividend Per Share Ind. 1958†	Price Range	Recent Price	Div. Yield
ADDRESSO.-MULTIG. W.C. (mil.) '56—$26.1 W.C. (mil.) '57—$28.6	$ 86.9	$106.2	8.3%	7.2%	$8.34	$8.40	$6.60[2]	$6.99[2]	$4.00[5]	$4.00[5]	205 -102	205	1.9%
BURROUGHS CORP. W.C. (mil.) '56—$91.0 W.C. (mil.) '57—$91.3	271.7	281.1	5.2	3.6	2.35	1.67	.53	.18	1.00	1.00	52⅜- 27⅝	33	3.0
COMPTOMETER CORP. W.C. (mil.) '56—$5.2 W.C. (mil.) '57—$4.7	11.8	12.0	3.3	[d]4.9	[d] .74	[d]1.12	.05	[d].10	......	......	10⅜- 3⅜	7	....
INT. BUS. MACH. W.C. (mil.) '56—$124.2 W.C. (mil.) '57—$294.7	734.3	1,004.4	9.3	8.8	6.55	7.73	3.47[6]	4.27[6]	2.30	2.60[5]	376½-249	365	.7
NATIONAL CASH REG. W.C. (mil.) '56—$99.3 W.C. (mil.) '57—$93.4	340.9	382.5	5.4	4.7	2.62	2.57	.54	.52	1.20	1.20	71½- 46¼	65	1.8
PITNEY-BOWES W.C. (mil.) '56—$11.2 W.C. (mil.) '57—$ 8.4	43.5	45.9	9.4	9.0	3.14	3.07	.70	.70	1.60[5]	1.60[5]	70¾- 44	66	2.4
ROYAL McBEE CORP. W.C. (mil.) '56—$32.6 W.C. (mil.) '57—$28.4	95.8[1]	107.6[1]	5.9[1]	4.1[1]	3.47[1]	2.68[1]	2.53[2]	.22[2]	1.40	.60	40⅜- 16	18	3.3
SMITH-CORONA MARCH.* W.C. (mil.) '56—$16.5 W.C. (mil.) '57—$32.0	69.0[3]	83.9[3]	5.2[3]	4.1[3]	2.32[3]	2.16[3]	1.70[4]	1.07[4]	.92[5]	1.00	27⅞- 14¾	17	5.8
SPERRY RAND CORP. W.C. (mil.) '56—$240.3 W.C. (mil.) '57—$218.1	868.9[5]	864.3[5]	5.7[5]	3.1[5]	1.74[7]	.96[7]	N.A.	N.A.	.80	.80	26⅛- 17¼	18	4.4
UNDERWOOD CORP. W.C. (mil.) '56—$35.5 W.C. (mil.) '57—$35.6	70.5	67.5	[d]11.5	[d]2.3	[d]10.91	[d]2.13	[d] .84	[d]2.88	.40	......	33¾-12⅛	19	....

(W.C.)—Working capital.
N.A.—Not available.
[d]—Deficit.
†—Indicated dividend for full year.

*—Pro forma earnings; new title after merger with Marchant Calculators ,Inc.
[1]—Year ended July 31.
[2]—9 months ended June 30.

[3]—Year ended June 30.
[4]—9 months ended March 31.
[5]—Plus stock.
[6]—1st 6 months.
[7]—Year ending Mar. 31 of following year.

Addressograph-Multigraph: Rising earnings trend scheduled to be sustained throughout the current year. Company proposes 3 for 1 stock split and contemplates moderate dividend increase. (A-1)

Burroughs Corp.: Lack of profits from computer operations and decline in standard office equipment has cut deepiy into earnings. A dividend cut is possible. (B3)

Comptometer Corp.: Despite reorganization, earnings improvement has not materialized. Divende outlook uncertain. (D2)

IBM: Giant of the industry, scores impressive earnings gains in first half despite slowdown in new orders. Further advances expected. (A1)

National Cash Register: Success of new electronic equipment is bettering earnings picture. No dividend increases seen, but full year results should compare favorably with 1957 despite slower cash register sales. (A1)

Royal-McBee: Reduced first quarter earnings and doubtful future led to dividend cut in June. Better business in second half but no return to former payments. (B3)

Smith Corona-Marchant: Merger of Smith-Corona and Marchant Calculator, new company will take time to adjust to new status. No appraisal possible at moment.

Sperry-Rand: Poor first quarter showing may be reversed as company swings into full defense operations. The 20¢ quarterly dividend does not appear to be in danger. (B2)

Underwood Corp.: Large deficits in first half of year will prevent an early return to dividend paying basis. Outlook for balance of year better than first half, but still unsatisfactory. (C3)

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

tional Cash Register and Sperry-Rand followed suit.

They found that in addition to the recession, sales were lagging for several reasons, but the most important seemed to be the inability of companies to make maximum use of the equipment once installed. As a result, technical "task forces" were placed at the disposal of prospective customers to help them iron out their paper-work difficulties, and to set up their office procedures in a way that would bring maximum benefits from office automation.

The result was more than worth the effort. Not only did sales revive, but many customers that had "stretched out" their equipment buying programs started to accept normal deliveries again. In essence, the office equipment producers provided a shining example for the rest of industry on how to act in a recession. Rather than sit back and accept the dictates of the market place, they accelerated their sales efforts and reduced their particular recession to very limited proportions.

Earnings Prospects Vary Widely

But if the industry has met the sales challenge, it still has a long way to go before earnings reach a satisfactorily comfortable level. With the exception of IBM, and specialized producers such as Addressograph-Multigraph and Pitney Bowes, earnings from electronic equipment still range from minute to nil for the vast majority of producers.

A possible exception is **National Cash Register** which is enjoying outstanding success with its "Post-Tronic" low priced bank posting machine. Since the first installation last year in the Clifton National Bank & Trust Company, these $11,000 units have been placed in over 250 banks. In all, almost 2,000 machines have been sold, and from all indications, there is no let up in the demand.

As a result, despite a slowdown in cash register sales, the company's revenues in April and May rose to $65.2 million from $64.5 million in the same two months last year, reversing the 3 per cent decline reported in the first quarter. Earnings appear certain to show up better than in the first quarter when net per share were reported at 52¢ against 54¢ in the same period of 1957.

Still, unless cash register sales pick up soon, earnings advances for the year will be small if any, for the simple reason that depreciation charges on the facilities for producing the Post-Tronic machines will remain high, along with the unamortized cost of research and development.

To a lesser degree, even **IBM** has somewhat the same problem. Sales so far this year have bounded ahead to $564 million in the first half compared with $456 million in the same period of last year. Earnings have also climbed to a record high, toting up to $4.27 per share against $3.47 last year, but the growth in profits lagged behind sales.

The reason can be found in the product mix. Largest sales are now in the company's data processing division which also accounts for the heaviest depreciation charges, and therefore the smallest profits margins. On the other hand, typewriters, which are high profit margin items, are not selling nearly as well as they were last year.

Typewriter Manufacturers in Slump

For IBM, the decline in typewriter sales is not too important, but for the several companies that view these basic office machines as "bread and butter" items, the picture is considerably different. The first four months' figures dramatically illustrate the nature of the decline in this business. Unit sales from January through April dropped to 314,900 units compared to 458,959 units in the first four months of 1957. In dollar volume this represents a precipitous drop to $69 million from $91.5 million a year ago.

Underwood has been particularly hard hit by this development and recently reported that its most optimistic forecast is for a $2 million deficit this year. First half figures indicate that this estimate may be conservative however. Sales slipped to $16.6 million in the first quarter from $20.6 million in the like period of 1957. The result of this decline was a deficit of $1.8 million for the period, while the company reports an additional $1 million loss for the second quarter. Thus, earnings in the second half will have to rise sharply if the company's estimates are to prove correct.

Four new products have been introduced this year in the quest for higher sales, and some success has been achieved in marketing its $30,000 Model 100 computer, but all of these items are still losing money.

On the plus side, Underwood has been realigning its operation to increase efficiency and to upgrade product lines so that its break even point has now been lowered to about 35 per cent of capacity. The company, therefore, should be able to show excellent recovery abilities when business finally picks up. An early return to a dividend paying basis, is not expected however.

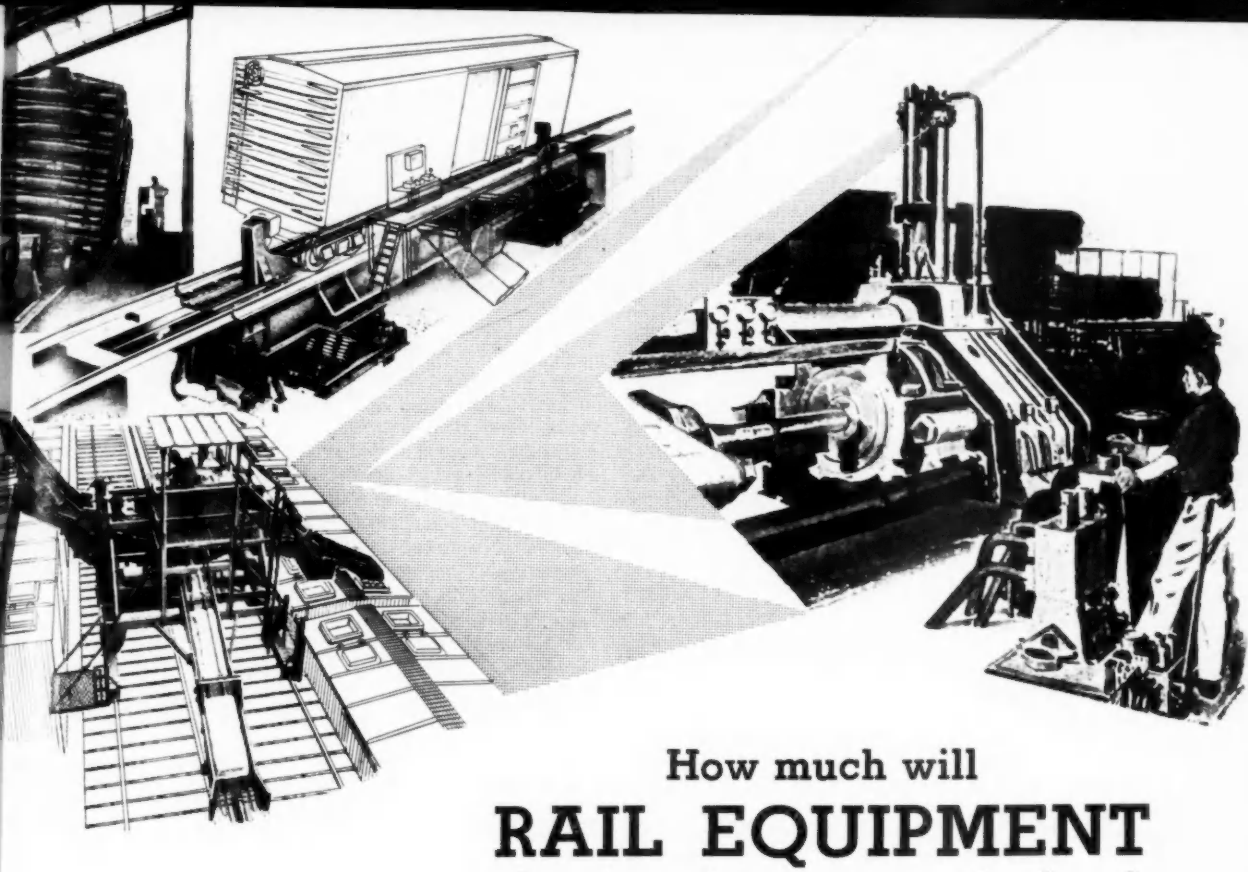
Specialized Producers Doing Well

In sharp contrast to the typewriter producers, **Addressograph-Multigraph**, which has cut out a special niche for itself as a producer of addressing machines, and Pitney-Bowes, which specializes in mailing machines, have turned in enviable performances this year.

The recession, so far, has left Addressograph unscathed, despite some labor upheaval which slowed production in the early months of its current fiscal year. In the first quarter, which ended in October 1957, sales, reflecting these labor difficulties were virtually unchanged from the year before, while earnings slipped to $1.45 per share from $2.09. By the second quarter, however, both sales and earnings were bounding ahead and showed enough improvement in the balance of the year to indicate earnings of around $9.75 per share for the year ending July 31, 1958. Comparable earnings last year were $8.40 per share.

In the period immediately ahead, the company's huge backlog of orders should enable it to withstand further recessionary tendencies in the economy, while even a modest recovery should lead to earnings of around $11 per share next year.

Pitney-Bowes hasn't performed as sensationally as Addressograph, but it too has been relatively insulated from the recession. The ever-increasing complexity of the modern business enterprise has led to a need for radically new mailing methods. The company, long a pioneer in metered machines and other mailing accessories, has therefore benefited substantially in recent years. (*Please turn to page* 545)



How much will RAIL EQUIPMENT Earnings improve—and when?

By John E. Fullerton

IF YOU have ever seen a roller coaster, then you have a good picture of the ups and downs that rail equipment manufacturers have experienced in years gone by. There are few industries which have had more erratic sales and earnings records. Pointing this up is the fact that only last year many of the leading companies were reaching new sales peaks, and this year, it appears that industry sales will be flirting with their postwar lows.

In view of this, it is readily understandable why share prices for the group took it on the nose in the closing months of 1957. Stock values plummetted 35% during the year. However, if the past is any indication of the future, an upturn lies ahead. Stock prices recouped nearly 20% of their 1957 losses, and further appreciation possibilities may be in the cards for the near future.

The rapidity of a sales rebound will depend to a large extent on the duration of the current business recession. This is particularly vital for the industry since the bulk of orders are from the railroads. The latter group lives or dies with general business conditions. Thus, it is not difficult to visualize the effect of a recession on rail equipment manufacturers.

At the present time, the immediate outlook is bleak. Order backlogs for individual companies, almost without exception, have slipped drastically below prior-year levels. Indicative of this is the fact that the number of freight cars currently on order is the lowest since mid-1955. The backlog of diesels is the smallest on the books since 1954 and orders are coming in at extremely slow rate.

Investor Interest Revived

But it would be a mistake to assume that rail equipment shares continue under pressure. On the contrary, sophisticated investors have been nibbling on several issues despite anticipated poor near-term earnings and in some cases, with dividend reductions in the background.

Investors have found the depressed levels prevailing at the end of 1957 and early 1958 an opportune time to pick up several issues—at perhaps bargain prices. Some of the selections have been of the investment variety. For example, General American Transportation shares have advanced to 85, from 1957 low mark of 68. On the more speculative side, Alco Products rebounded to over 17 from near 11 in 1957, a handsome gain in any portfolio.

The general market recovery that has taken place for rail equipment shares so far this year, while only moderate, portends improved sales and earnings later on. In the forefront of the bullish sentiment is the improving outlook for rail profits as the recession peters out. Since the rail industry pulled in its horns during the business downturn, and cut maintenance outlays severely in order to offset its revenue losses, it will have to reverse policy when business revives.

Thus, the small backlogs on the books tell only part of the story. Once business turns up, the carriers must come back into the market in order to get

Position of Leading Rail Equipment Companies

	1st Quarter						Full Year						
	Net Sales 1957 (Millions)	Net Sales 1958 (Millions)	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Net Per Share 1957	Net Per Share 1958	Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1957	Dividend Per Share Ind. 1958*	Price Range 1956-1957	Recent Price	Indicated Div. Yield
ACF INDUSTRIES W.C. (mil.) '56—$53.6 W.C. (mil.) '57—$56.5	$294.5[1]	$294.8[1]	3.3%[1]	2.9%[1]	$6.95[1]	$6.18[1]	$6.08	$6.95	$4.00	$2.50	64⅞-36⅞	38	6.5%
ALCO PRODUCTS W.C. (mil.) '56—$44.9 W.C. (mil.) '57—$45.9	45.3	38.5	1.1	3.7	.26	.78	2.11	1.51	1.00	1.00	19⅜-10⅞	16	6.2
AMER. BRAKE SHOE W.C. (mil.) '56—$32.3 W.C. (mil.) '57—$44.1	48.4	37.3	5.1	2.7	.52	.47	6.64	5.67	2.90	2.40	57½-32¼	38	6.3
AMER. STEEL FNDRIES. W.C. (mil.) '56—$33.2 W.C. (mil.) '57—$34.0	58.2[2]	54.5[2]	6.0[2]	5.6[2]	2.74[2]	2.37[2]	6.52	6.20	2.90	2.40	47⅜-27¼	34	7.0
BUDD CO. W.C. (mil.) '56—$66.2 W.C. (mil.) '57—$64.5	83.1	56.1	3.2	1.4	.58	.15	1.97	1.91	1.40	1.40	21½-13⅛	14	10.0
GEN. AMER. TRANS. W.C. (mil.)'56—$74.2 W.C. (mil.) '57—$62.5	49.4[3]	55.1[3]	6.5[3]	6.2[3]	1.43[3]	1.45[3]	5.71	6.61	3.52	3.75	88 -67¾	84	4.4
GEN. RAILWAY SIGNAL W.C. (mil.) '56—$ 9.2 W.C. (mil.) '57—$11.3	N.A.	N.A.	N.A.	N.A.	.74[3]	.35[3]	3.10	3.13	1.75	1.25	34 -19½	28	4.4
N. Y. AIR BRAKE W.C. (mil.) '56—$15.4 W.C. (mil. '57—$16.5	12.8	9.0	5.0	3.2	.89	.34	2.56	3.19	1.60	1.60	28 -17⅛	19	8.4
POOR & CO. W.C. (mil.) '56—$ 9.9 W.C. (mil.) '57—$10.1	10.7	7.5	4.2	3.0	.77	.39	3.01	2.73	2.00	1.50	32¾-15⅜	21	7.1
PULLMAN W.C. (mil.) '56—$117.0 W.C. (mil.) '57—$123.5	91.2	105.6	2.7	2.7	1.12	1.31	5.71	6.67	4.00	4.00	66½-42¼	52	7.6
STAND. RWY. EQUIP. W.C. (mil.) '56—$ 9.7 W.C. (mil.) '57—$11.0	8.8	5.2	12.1	7.7	.82	.33	2.19	2.32	1.25	1.00	18⅜-11⅝	13	7.6
SYMINGTON-WAYNE* W.C. (mil. '56—$16.0 W.C. (mil.) '57—$14.9	N.A.	11.7	N.A.	3.5	.28	.25	1.45	1.09	.80	.60	14 - 6⅜	11	5.4
UNION TANK CAR W.C. (mil.) '56—$ 6.1 W.C. (mil.) '57—$16.3	9.9	20.5	17.4	9.2	.64	.61	2.40	2.64	1.60	1.60	32¼-24¾	31	5.1
WESTING. AIR BRAKE W.C. (mil.) '56—$92.0 W.C. (mil.) '57—$96.5	59.4	53.0	5.3	4.3	.76	.55	2.86	2.89	1.20	1.20	33⅛-17½	22	5.4
YOUNGS'TN ST. DOOR W.C. (mil.) '56—$ 9.5 W.C. (mil.) '57—$10.5	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	4.22	4.05	2.00	1.00	30 -16	17	5.8

(W.C.)—Working capital.
N.A.—Not Available.
***—New title of Symington Gould after merger with Wayne Pump Co.**

1—Year ended April 30, 1957 & 1958
2—6 months ended Mar. 31.
3—1st quarter.

***—Indicated dividend for full year.**

ACF Industries: Small order backlog indicates lower earnings in coming months. Diversification in automotive and electronic fields expanding. Dividends were recently pared to $0.62½ quarterly, from $1. (B3)

Alco Products: Increased foreign demand for diesel locomotives helps offset small domestic orders. Moderate profits rebound is looked for this year and $1 dividend will be amply covered. Prospects depend on diversification. (C1)

American Brake Shoe: Diversification has reduced equipment volume to around 40 per cent of sales. A sharp decline in earnings is in store for this year and reduction in $0.60 quarterly rate possible. (C3)

American Steel Foundries: Business remains cyclical though diversification has lessened wide earnings swings. Profits will narrow severly this year and a dividend reduction could materialize later on. (C3)

Budd Company: Smaller demand from auto manufacturers, plus downturn in rail equipment orders, will depress earnings well under the $1.91 a common share of 1957. Dividend cut is in prospect. (C3)

General American Transportation: Substantial lease income lends stability to earnings. Despite drop in manufacturing acivity, profits should reach $6 a share. Dividends are secure. (B2)

General Railway Signal: The order backlog is large but depressed business has caused rails to defer delivery. Earnings will fall this year but future prospects remain bright. Smaller extra payout likely in 1958. (B3)

N. Y. Air Brake: Diversification into industrial pump, materials-handling and machinery lines should help stabilize operations in time. Poor earnngs immediately ahead. Dividends were recently cut to $0.25 quarterly. (B3)

Poor & Co.: Expansion into industrial lines has bolstered earnings in recent years. Half of 1957 sales were from the rails. Dividends were sliced to $0.37½ quarterly this year, and continuation of this rate depends on the exten of current profis slide. (C3)

Pullman: Larges railroad car builder has interests in engineering and construction field. Company is also second largest highway trailer producer. Finances are strong, but earnings downturn could bar $1 extra in 1958. (B3)

Standard Railway Equipment: Produces roofs and ends for railroad cars, but has taken steps to diversify. Lower backlog presages earnings slide this year, but dividends could continue at $0.25 quarterly. (C3)

Symington Wayne: Formed in March of this year through merger of Symington-Gould and Wayne Pump. While S-G business will be off sharply this year, introduction of new pumps by Wayne could boost share-earnings above $1.09 of 1957. (C2)

Union Tank Car: Continued moderate growth in car leasing business, together with recent acquisitions, promise to expand earnings base. Moderate profits decline indicated for this year but dividends are secure. (B2)

Westinghouse Air Brake: A major facor in rail air brakes, company has shifted emphasis to several outside lines which could promote growth over period of time. Profits will be down in 1958. Dividend reasonably secure. (B3)

Youngstown Steel Door: Virtually complete dependence on rail volumes will be reflected in wide profits decline this year, possibly to around $1 a share. Dividends recently reduced to $0.25 quarterly rate. (C3)

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

rolling stock in shape to meet increased shipper needs. This has been the case through the years. Moreover, the rail equipment companies have an added factor working in their favor. After considerable delays, the Government has been convinced that unless some legislation is enacted, many railroads would deteriorate to the position whereby they wouldn't be able to serve in case of a national emergency.

Favorable Legislation Near

Hence, the first piece of railroad legislation in many years is close to being enacted. In addition to provisions which give the railroads more freedom in meeting competition, there is a provision which would authorize the Government to guarantee private loans up to $700,000,000 for capital improvements. Of this total, $150,000,000 would be for operating expenses. The bill, sponsored by Senator George A. Smathers of Florida, passed the Senate and a companion measure should reach the floor of the House shortly. Passage is probable.

The bill is important in that it would enable railroad companies to tap the capital market on more favorable terms. Also, the roads would have access to new sources, which formerly denied credit because of a low credit standing or poor earnings record. Other important provisions of the bill give the rails more freedom to cut rates, strengthen ICC authority over intrastate rates and tighten control over private carriers. Recent passage of the bill to remove 3% tax on freight bills should yield important benefits in time.

There is a solid foundation for federal assistance to the rail industry, whose situation determines to a large extent the well being of rail equipment firms. A sound policy is needed to assure preservation of our rail system, which is so vital to our nation in times of strife. Continued fluctuations in rail profits and hence wide swings in orders will gradually result in even more equipment companies leaving the field. Therefore, outmoded laws must be scrapped.

Diversification Key Factor

It would be a mistake to discuss the rail equipment industry as a unit. A wide range is encompassed, with diversification varying within the industry itself as well as without. Some companies are wholly dependent on rail orders, while a few firms have managed to cut annual rail sales to considerably less than half of total volume. Diversification has been a main consideration of most firms in recent years in an attempt to lessen the peaks and valleys that result from total dependence on the cyclical rail industry.

The logic behind the transition is to obtain fuller use of plant facilities at all times. Success in attaining this goal would undoubtedly result in higher evaluation for the securities. Many diverse fields have been entered, with most concerns remaining in the capital goods area. Some companies developed additional products through research, but the main route has been through merger with or purchase of existing firms. The current business recession has spurred many producers to step up diversification plans.

American Brake Shoe Company: This company is an outstanding example of the progress made by some of the leading companies in diversifying activities. In the late 1940's, the railroads accounted for about 55% of sales. At present, the percentage has been sliced to 38%, and the sights have been set at 30% by the end of 1970. Brake Shoe's wide range of products gives it markets in nearly every segment of the economy, from basic steel items to aircraft manufactures. Automotive and farm equipment markets are also served. While the drastic downturn in virtually all phases of capital goods industries will continue to depress profits over the near term, the future growth factor is unchanged.

Pullman, the largest builder of rail freight cars, took its first step away from complete dependence on the railroad industry in 1944 with the purchase of the M. W. Kellogg Company. The latter is engaged in designing and erection of plants for the petrochemical and chemical industries. Another forward stride was made in 1951 when Trailmobile Company was acquired. It is the second largest builder of highway truck trailers. The new fields of endeavor not only bring good growth possibilities into Pullman's operations but should help lessen cyclical swings.

ACF Industries is another major company in the field which has made good progress in diversifying. In addition to being the second ranking producer of railway freight and passenger cars of all types, the company derives sizable revenues from manufacturing automotive parts, pressure vessels, tank cars, valves, nuclear and electronic devices. Leasing of freight cars is another profitable venture, and it is expanding at good rate. ACF has taken active part in electronic "classified" research and development and has been a leader in infra-red research. In the future, company hopes to have over 25% of its sales in these lines. While sharp reduction in profits is in store for at least the next six months, the long-range earnings potential is encouraging.

A few non-rail lines recently entered into include aluminum boats (Standard Railway Equipment), making wall panels for skyscrapers (Pullman-Standard) and producing engines for oil drilling rigs (Electro-Motive division of General Motors Corp.). Road-building machinery is built by several firms, including Westinghouse Air Brake and Poor & Company. Pittsburgh Forgings, through a subsidiary, makes components for earth-moving equipment. Aircraft and guided missile components are manufactured by New York Air Brake and ACF Industries.

Wide Range Encompassed

The rail equipment industry itself covers a wide range. Purchases by railroads involve not only freight and passenger cars, but locomotives and an increasing amount of electronic devices for yard and roadway modernizations. Another important factor to be considered when evaluating sales prospects for an individual company is the percentage of replacement volume. This is extremely important since this type of business is not as severely affected in poor times as are new products lines. Finally, the equipment industry also includes the car rental concerns.

The latter group has enjoyed a high degree of earnings stability as well as a measure of growth in recent years. The major car lines are Union Tank Car and General American Transportation, which also has sizable manufacturing interests. Both companies have traditionally sold on a higher price-earnings basis than for *(Please turn to page* 547)

A hard look at . . .

Agricultural Machinery Makers

By J. J. Bleeker

ONE of the more encouraging economic developments thus far in the recession year 1958 is the improved outlook for major farm areas and consequently for industries whose prospects are dependent on agricultural income. Most important of these are the leading farm equipment manufacturers. Generally speaking, their near term prospects have taken a turn for the better. The principal reason, of course, is the very favorable harvests now in process or in prospect for nearly all major crops. . . . O beautiful for spacious skies, for amber waves of grain . . .

Not all of the major crops are completely safe from the weather yet, as for example maize (called corn in America). But barring sudden adverse weather developments, the outlook now indicates bumper, if not record, crops for the principal grains.

The winter wheat harvest, now already well along, is estimated at 1.1 billion bushels, the largest ever, and the final yield may even exceed this, unless late rains slow up operations and reduce yields. The Government's July 1 estimate on the corn crop, usually the most valuable grain crop in this richest of all agricultural countries, was over 3.3 billion bushels. It may be larger, given a good fall, and if it does not set a record, it will at least be a bumper crop.

Backing up this rich corn yield, the spring pig crop was close to 53 million head, well above last year's farrowings. Meanwhile, the corn-hog ratio (i.e. the cost of corn in relation to selling price of hogs) is the most favorable in years. It is now 18.2 to 1. Normally farmers will feed the corn rather than sell it when the ratio goes to 12 to 1 or better (unless the corn goes under loan). When it gets to 18.2, then they will really hog down the corn fields and feed them heavy.

Moreover, the beef cattle picture also is bright. The total number on farms was estimated at about 95 million head in mid-1958, and prices were topping at $31.50 in the principal markets, up from $28.00 a year ago. Since most beef cattle are finished off on corn before being sent to market, and cattle feed costs also are relatively low, it will be a good year for feeders.

Futures prices for major grains in the principal markets have sagged a bit from their highs of early this year, reflecting lower support levels, and the fine crops being made. At this writing they are moderately below year earlier levels. However, in no case has there been any serious or prolonged weakness in prices.

In summary, it promises to be a real nice Thanksgiving throughout the corn belt. Make no mistake about that. But it is the Southwest wheat areas that will have the most to be thankful for. Plagued by recurrent drought and sagging farm prices since the lush post war years, the harvest this year is one of the best if not the best the area ever made. Mayhap the seven lean years are over. We shall see.

Reflecting the bumper crops and well maintained or rising prices, there has been a steady marking up

of estimated farm income for the current year. Earlier this year the Department of Agriculture tentatively estimated farm income would show a gain of 5% or more over the $10.8 billion indicated for 1957, which had been the lowest since 1942. However, Secretary Benson has recently indicated that farm income for the first half of 1958 was running at the rate of $13.3 billion. This was no less than a remarkable 22% jump over year earlier levels, indeed the sharpest year to year gain in over a decade. It is still somewhat short of the $14.3 billion scored in 1951. However, it is still mighty good, particularly in this year of recession. No other segments of the economy are expected to shown any comparable improvement during the current year, according to recent indications.

The improvement in the farm income picture can hardly be expected to lead the country out of the depression. Farm income is not big enough for that. But it is the most important factor in the earnings outlook for the farm equipment manufacturers, and for this reason their earnings for the year ending next October should show a material recovery over 1957 levels. And there is every reason to expect that improved fiscal 1958 results will carry over into fiscal 1959. One major factor in this is the domestic replacement market.

Markets for combines, tractors, gang plows, cornpickers are not the same as those for automobiles. These farm machines often are more expensive, are bought solely to make profits, and there is no year-to-year model change presented with the fanfare that accompanies new auto models. But farm equipment does wear out, does have to be replaced, and there is a genuine replacement market. Moreover, farm equipment is by no means standardized and new improved models are developed.

Turning now to the years 1947-1951, these were the years in which farm expenditures for durable equipment reached their (*Please turn to page* 544)

Position of Leading Farm Equipment Stocks

	Full Years: Net Sales (Millions) 1956	Net Sales (Millions) 1957	Net Profit Margin 1956 %	Net Profit Margin 1957 %	Net Per Share 1956	Net Per Share 1957	Dividend Per Share 1957	Dividend Per Share Ind. 1958*	1st Quarter Earned Per Share 1957	1st Quarter Earned Per Share 1958	Price Range 1957-1958	Recent Price	Div. % Yield
ALLIS-CHALMERS W.C. (mil.) '56—$267.4 W.C. (mil.) '57—$257.6	$ 547.4	$ 534.1	3.7%	3.3%	$2.42	$2.11	$2.00	$1.00	$ .61	$ .27	36¼-20⅞	24	4.1%
CASE, J. I. W.C. (mil.) '56—$84.8 W.C. (mil.) '57—$71.3	87.0	123.9	[d]1.1	1.0	[d] .72	.09			[d]1.18[1]	[d] .10[1]	20⅝-12⅜	20	
CATERPILLAR TRACTOR W.C. (mil.) '56—$164.1 W.C. (mil.) '57—$192.3	685.9	649.9	8.0	6.1	6.08	4.32	2.40	2.40	1.60	.35	99½-55⅛	65	3.6
DEERE & CO. W.C. (mil.) '56—$298.7 W.C. (mil.) '57—$308.0	313.5	388.1	6.3	7.3	2.67	3.96	1.62	1.75	2.10[1]	2.25[1]	39¼-26⅞	38	4.5
INTER. HARVESTER W.C. (mil.) '56—$425.1 W.C. (mil.) '57—$416.0	1,252.0	1,171.3	3.9	3.8	3.16	2.88	2.00	2.00	1.20[1]	1.18[1]	38¾-25⅝	35	5.7
MINN.-MOLINE W.C. (mil.) '56—$40.7 W.C. (mil.) '57—$37.8	55.8	57.4	.8	[d]3.7	.16	[d]5.72			[d] .74[1]	[d]1.65[1]	18¼- 7⅜	11	
MYERS (F. E.) & BRO. W.C. (mil.) '56—$5.8 W.C. (mil.) '57—$6.2	13.6	13.1	7.9	7.1	5.27	4.64	2.80	2.40	1.74	1.36	53 -37½	42	5.7
OLIVER CORP. W.C. (mil.) '56—$63.3 W.C. (mil.) '57—$61.3	107.8	101.6	1.7	.6	.76	.13	.60	.60	[d] .28[1]	.10[1]	13⅞- 7	11	5.4

(W.C.)—Working Capital. **[1]—6 months ended April 30.** ***—Indicated dividend for full year.**
[d]—Deficit.

Allis-Chalmers Manufacturing Co.: Although it is one of the largest of the farm machinery manufacturers, important diversification in heavy electrical equipment and in machinery lines enhances the longer term outlook. Earnings were down in the first months of this fiscal year but may improve moderately over coming months. Operations are cyclical. (B2)

Case (J. I.) Co.: Sharp recovery expected in earnings for current fiscal year, but resumption of dividends this year doubtful. Acquisition of American Tractor in 1957 has improved prospects for industrial business. (C1)

Caterpillar Tractor: Earnings for 1958 expected to be well below 1957 results, as lower industrial sales have more than offset improved farm sales. Federal road building program should help results in due course. Dividends of $0.60 quarterly not too secure. (B3)

Deere & Co.: Rising farm income indicates considerable recovery in earnings for 1958. Regular dividend likely to be supplemented by fiscal year end extra. (A1)

International Harvester: Although truck sales are more important than farm equipment sales, sharp improvement in the latter indicates improved earnings over the near term. Current dividends are quite secure. (A1)

Minneapolis-Moline: Although reorganization of operations and the improvement in farm income suggests some betterment in near term results, the company's position is marginal and its longer term prospects appear below average for the industry. (D2)

Myers (F. E.) & Brother: This leading manufacturer of pumps sells largely to farmers. Earnings for the six months to March 31, 1958 declined. Over the years the company's record has been fairly good and with farm income expected to improve, some betterment in earnings is anticipated over coming months. (B2)

Oliver Corp.: Improved farm income suggests relatively good recovery in earnings for fiscal 1958. The current dividend of $0.15 quarterly may be maintained. (C1)

RATINGS: **A—Best grade.**
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

FOR PROFIT AND INCOME

No Guide

News of the start of the Korean War, like that of the present Middle-East crisis, came "out of the blue" over a week end. The Dow industrial average fell 10.44 points, or more than 6.6%, in the first trading session. The slide lasted for nearly three weeks, footing up to about 27 points, or roughly 12%. Resumption of the bull market then took the average up close to 50% by January of 1953. Perhaps memory of that experience aided in keeping market nerves relatively calm in the present instance. The brief sell-off was insignificant in percentage. The industrial and rail averages are at new recovery highs as this is written, reflecting a view that the general outlook has now suddenly become more inflationary. However, past history is no guide in this fluid and highly uncertain situation. Nobody can foresee its outcome. Hence, investors and speculators should realize that the risk of guessing wrong on what is ahead for the market and individual stocks is greater than it normally is, and could be very great indeed. You should hold to a sensibly selective, middle-road policy—keeping at least one foot on the ground.

Stock Groups

As noted heretofore, the market has tended to become progressively more speculative. At this time, regardless of some exceptions, there is more emphasis on stocks with a "war flavor" and/or relatively depressed issues; less interest in conservative income equities. Hinging importantly on the news, the present patterns of selectivity may or may not continue. Groups reflecting above-average demand at this writing include aircrafts, aluminum, bituminous coal, domestic oils, coppers, steels and cane sugar producers. Among the current laggards are air transport, building materials, drugs (following a major advance), electrical equipments, finance companies, foods, gold mining, office equipments, paper, radio-television-appliance stocks, retail stocks, utilities, textiles—and, of course, the international oils.

Oils

We have repeatedly pointed out the basic hazards confronting international oil companies, whether

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Middle South Utilities	5 mos. May 31	$ .91	$ .80
Beatrice Foods Co.	Quar. May 31	.60	.57
Kroger Co.	24 weeks June 14	2.55	2.28
Wesson Oil & Snowdrift	9 month May 31	1.28	1.06
Schenley Industries	9 months May 31	2.25	1.85
Avco Mfg. Corp.	6 months May 31	.67	.56
Austin, Nichols & Co.	Year April 30	1.47	1.07
Carter Products, Inc.	Year Mar. 31	2.18	1.74
Great Atlantic & Pac. Tea Co.	Year Feb. 22	23.42	19.20
Northrop Aircraft	Quar. April 30	1.18	.86

in the Middle East, the Far East or South America. What to do about the stocks now is a difficult question. Our instinct is to hold them, and hope for a rally on which to pare positions. What is the worst that could happen? (1) Total war, presumably meaning hydrogen-bomb war. In that seemingly unlikely event, you will have infinitely more to fear than the fate of your international oil stocks or any other stocks. (2) Nationalization, with or without recompense, of some or all Middle-East oil properties. That is possible, but economic logic argues against it. Iran's try at it a few years ago was a flop. The international oil companies have the know-how, the transport facilities and the marketing outlets; the Arab governments vitally need the revenue from oil; the Russians do not have adequate transport or marketing outlets. As assets on the company books, the holdings are very lightly capitalized. (3) What seems most likely over a period of time is a split less profitable to the companies than the 50-50 deals which are presently the general rule. That might not be too serious, for the big units have diversified world interests, including major positions in U. S. production, refining and marketing. If the threat to foreign oil is a promise for U. S. and Canadian oil—as the market is saying it is—the promise has to be shared to some extent by the international companies.

Leverage

There is considerable leverage in the earnings of companies in many industries and a great deal of it, in one way or another, in some. Leverage explains why a 10% fall in sales can result in, for example, a 20%, 30% or 40% fall in profits; and why a moderate improvement in volume can in some instances bring a relatively wide betterment in earnings. There are a number of leverage factors. Capitalization is one. Where fixed charges are relatively high, as in the case of rails, variations in gross revenue have magnified (leveraged) effect on net per common share. Fixed charges are high also in the case of utilities, but revenue is steady—so there is little leverage. This example illustrates that, for practical investment purposes, leverage is much more than a capitalization factor alone. There is leverage in sales; in the degree of utilization of plant capacity; in selling prices; in variations in operating efficiency. The recession-sensitive industries are not likely to get back to satisfactory earnings without considerable delay; but moderate gains in volume can bring profit recoveries in a degree surprising to investors not awake to the workings of leverage.

Steel

Steel is a high-leverage industry on several counts, but especially with respect to variations in utilization of capacity. Around or below a 50% of capacity operating basis, weaker companies are in the red and profits of major concerns are a small fraction of the peak earlier levels. But the industry is using its most efficient facilities, leaving older plants idle. It is undoubtedly getting more employee efficiency; and in the present situation it seems unlikely to delay much longer on a price boost to compensate for the July 1 third round of wage boosts. The point to keep in mind is that operations at even 60%-65% of capacity—which would still be a semi-depressed position — would mean considerably improved profits; operations at 75%-80%; good profits (far above dividend requirements) for efficient companies. To illustrate, second-quarter shipments of Jones & Laughlin were 7% above the first-quarter level; but per-share earnings, while still depressed, more than doubled.

Selections

The best steel stocks, all popular with institutional and other investors, are Bethlehem, Inland and U. S. Steel. But popularity carries some price premium; and the fact is that steel stocks tend to move together in general direction, even though in varying degrees. At least among the eight or ten larger companies, shares of the available business do not change much from year to year; and none can be by-passed by recovery in general business activity, as translated into demand for steel. Steels are high on current earnings and involve interim speculative risk, but business has passed the low point; and, regardless of the pace of the recovery or even some relapses in it, the prospect is for a full recovery in due course, perhaps in 12 to 24 months (without attempted reference to the Middle-East crisis as a factor). Taking this viewpoint, our preference would be neither the leading steel stocks nor the most speculative ones; but middle-road choices which, as measured by past highs, offer considerably more "percentage" than the most popular issues and more moderate medium-term risks than the marginal ones. In this class are Armco, Jones & Laughlin, Granite City Steel, Republic and Youngstown Sheet & Tube.

Rail Stocks

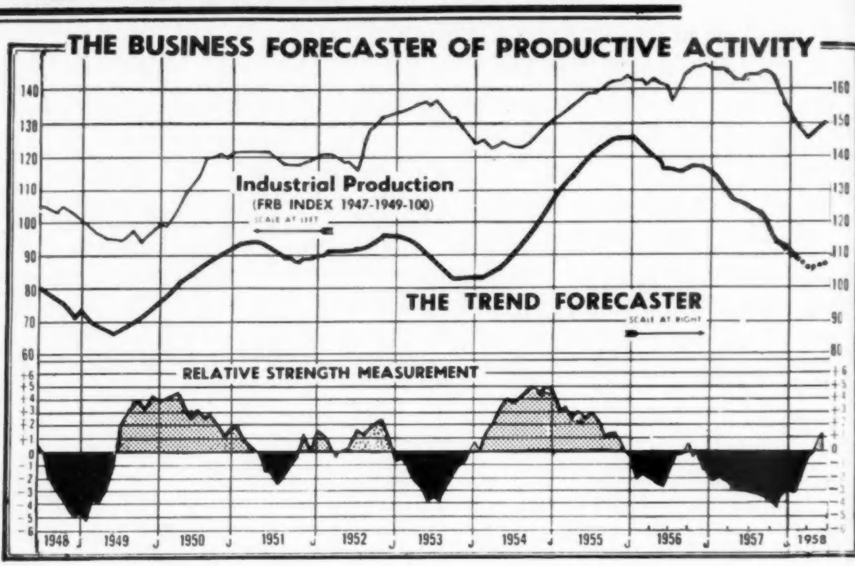
Relatively high fixed charges and sharp cyclical variations in freight revenue impart broad leverage to earnings on railroad common stocks. Earnings so far in 1958 have run sharply under year-ago levels. Considerably better comparisons appear likely in the fourth quarter. Most rails have below-average merit for long-pull investment, but speculative potentials are inherent in their wide cyclical swings. The rail average is about 30 points above its late-1957 low, but 56 points under its 1956 top. The stocks are by no means cheap on 1958 earnings but have substantial leeway for more cyclical recovery, even though the time pattern is uncertain. They can, of

(*Please turn to page* 552)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Champion Paper & Fibre	Year Mar. 31	$2.51	$3.14
Ex-Cell-O Corp.	Quar. May 31	.77	1.09
Western Union	5 mos. May 31	.57	.83
Eagle-Picher Co.	6 mos. May 31	.91	2.41
Mueller Brass Co.	Quar. May 31	.54	.83
Kelsey-Hayes Co.	Quar. Mar. 31	.60	1.58
Fedders-Quigan Corp.	Quar. May 31	.41	.70
Norfolk & Western Rwy.	5 mos. May 31	1.80	2.84
Glidden Co.	9 mos. May 31	1.65	2.34
Hercules Motors Corp.	9 mos. April 30	.04	.48

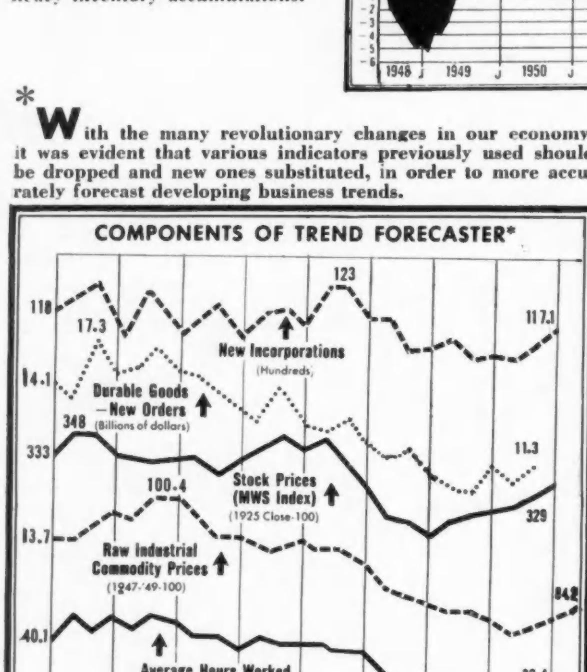
the Business



Business Trend Forecaster*

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(*)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F. W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

At the end of the second quarter, seven of the eight indicators entering into the Trend Forecaster were in a rising month-to-month trend, and a clear majority had reversed their longer-term cyclical trend from decline to expansion. (Only business failures worsened in the latest period.) In four of the eight series—stock prices, average hours worked in factories, raw material prices and housing starts—the reversal has been definite and substantial. These are among the least erratic of the eight, and also among the most sensitive. New incorporations are somewhat more erratic, but appear to be in a sustained phase of improvement. For durable goods orders, and nonresidential construction, the trend appears to be only tentatively upward, and further evidence is still required to place them solidly in the plus column.

Even with these qualifications, however, the **Relative Strength Measurement** is definitely in positive ground, and rising. With its companion measure, the **Trend Forecaster**, it is now calling clearly for significant business improvement in the latter part of the year.

Analyst

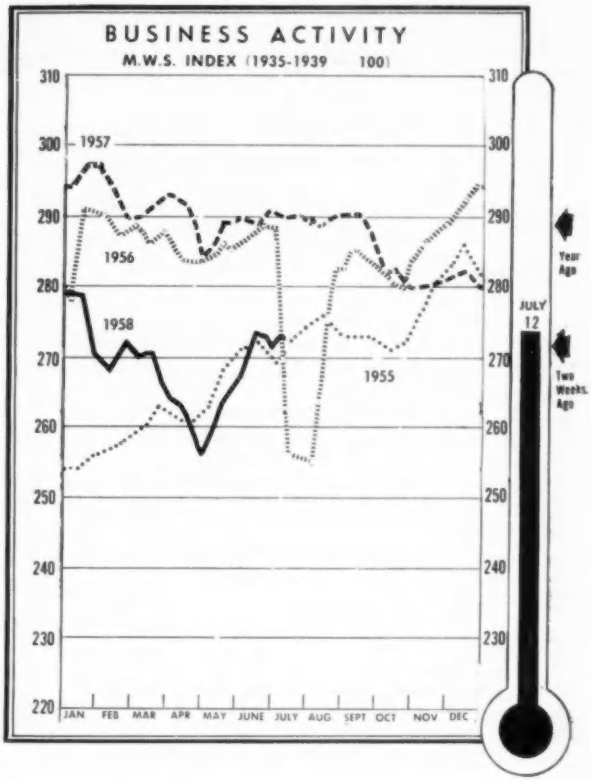
CONCLUSIONS IN BRIEF

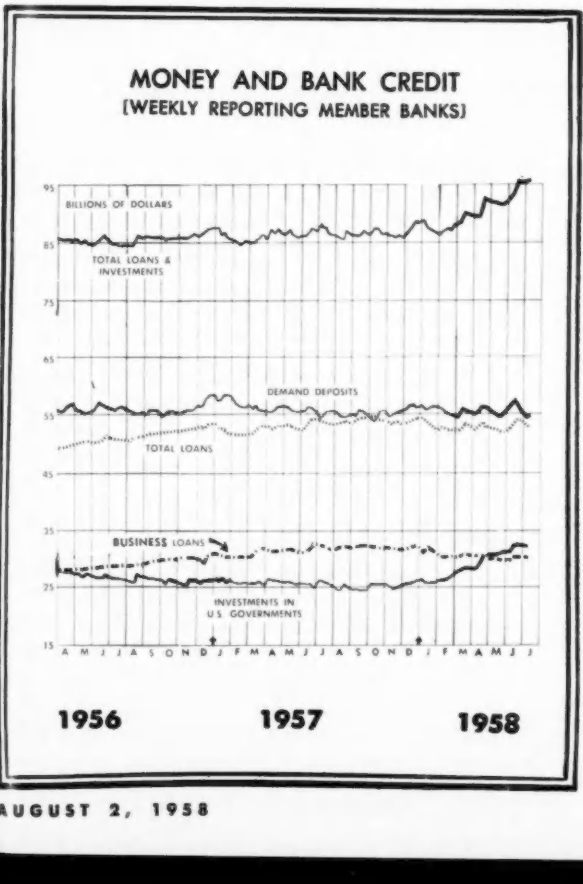
PRODUCTION—a moderate uptrend appeared late in the second quarter, but has turned erratic during the summer. Indications are now for a more sustained uptrend beginning in August and September, running through the winter.

TRADE—remains stable. No tendency to further decline is in prospect, but further expansion from present level is not likely to occur until late Fall. Then it will be concentrated in non-food soft goods—apparel, semi-durable homefurnishings, etc.

MONEY & CREDIT—Middle East Crisis, plus heavy Federal demand for funds owing to widening deficit, is gradually invoking government pressures to sustain wobbly markets for U. S. securities, supporting prices, holding down interest rate structure.

COMMODITIES—got a shot in the arm from the Middle East. Their trend now depends heavily on international developments. Prolonged tension likely to force many raw materials—particularly imported materials—into a strong uptrend.





STARTING any fresh analysis of the outlook these days calls for an obvious but necessary comment: a great deal now depends on the course of international tensions developing out of the Middle East crisis. Other things being equal, the crisis, because it suggests increased government demand and perhaps interferences with the supply of some imported materials, tends to stimulate speculative buying, revives inventory demand, makes purchasing agents nervous, and reminds corporate treasurers that excess profits taxes may lie ahead. This disconcerting bundle of effects probably has the net consequence of stimulating business markets and stock prices over the short term. The stimulus may be short-lived, however, unless the implications of the crisis begin to suggest a broad, general renewal of inflationary pressures on a massive scale. Only a hint of this consequence is yet in the news, but it may grow in the near future.

Even before the Iraq revolution, it was apparent that something encouraging was beginning to happen in business markets. In particular, inventory policy was already beginning to reverse from liquidation to accumulation in many metals industries, in petroleum, in defense manufacturing. That reversal may now be substantially underwritten by the developments in the Middle East. For that reason, the kind of recovery that should be looked for in late 1958 has changed; it is likely to be more forceful and urgent, and perhaps more broadly distributed.

This is no mandate to forego all caution in planning for early 1959. Barring an actual war scare, or a greatly augmented armament program, neither consumer purchases of durable goods nor business purchases of plant and equipment are likely to be rising rapidly, and under these

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	June	130	128	145
Durable Goods Mfr.	1947-'9-100	June	138	134	163
Nondurable Goods Mfr.	1947-'9-100	June	127	126	131
Mining	1947-'9-100	June	114	109	127
RETAIL SALES*	$ Billions	June	16.5	16.6	16.6
Durable Goods	$ Billions	June	5.2	5.2	5.8
Nondurable Goods	$ Billions	June	11.3	11.3	10.9
Dep't Store Sales	1947-'9-100	June	134	133	138
MANUFACTURERS'					
New Orders—Total*	$ Billions	May	24.7	24.5	28.4
Durable Goods	$ Billions	May	11.3	10.8	14.1
Nondurable Goods	$ Billions	May	13.7	13.4	14.3
Shipments*	$ Billions	May	25.1	24.9	28.6
Durable Goods	$ Billions	May	11.7	11.5	14.3
Nondurable Goods	$ Billions	May	13.4	13.4	14.3
BUSINESS INVENTORIES, END MO.*	$ Billions	May	87.0	87.6	90.6
Manufacturers'	$ Billions	May	51.0	51.5	53.9
Wholesalers'	$ Billions	May	12.1	12.2	12.7
Retailers'	$ Billions	May	23.9	23.9	23.9
Dept. Store Stocks	1947-'9-100	May	144	143	152
CONSTRUCTION TOTAL	$ Billions	June	4.4	4.1	4.4
Private	$ Billions	June	3.0	2.8	3.1
Residential	$ Billions	June	1.5	1.4	1.5
All Other	$ Billions	June	1.5	1.4	1.6
Housing Starts*—a	Thousands	June	1,090	1,010	995
Contract Awards, Residential—b	$ Millions	May	1,346	1,240	1,297
All Other—b	$ Millions	May	2,056	1,644	2,103
EMPLOYMENT					
Total Civilian	Millions	June	65.0	64.1	66.5
Non-Farm	Millions	June	50.4	49.9	52.5
Government	Millions	Jpne	7.8	7.9	7.6
Trade	Millions	June	11.0	11.0	11.3
Factory	Millions	June	11.4	11.3	12.9
Hours Worked	Hours	June	39.2	38.6	40.0
Hourly Earnings	Dollars	June	2.12	2.12	2.07
Weekly Earnings	Dollars	June	83.10	81.83	82.80
PERSONAL INCOME*	$ Billions	June	352	350	350
Wages & Salaries	$ Billions	June	235	233	240
Proprietors' Incomes	$ Billions	June	57	57	56
Interest & Dividends	$ Billions	June	32	32	31
Transfer Payments	$ Billions	June	26	26	22
Farm Income	$ Billions	June	17	18	16
CONSUMER PRICES	1947-'9-100	June	123.7	123.6	120.2
Food	1947-'9-100	June	121.6	121.6	116.2
Clothing	1947-'9-100	June	106.7	106.7	106.6
Housing	1947-'9-100	June	127.8	127.8	125.5
MONEY & CREDIT					
All Demand Deposits*	$ Billions	May	107.6	107.2	106.6
Bank Debits*—g	$ Billions	May	80.3	81.3	84.6
Business Loans Outstanding—c	$ Billions	May	29.8	30.2	31.1
Instalment Credit Extended*	$ Billions	May	3.3	3.3	3.5
Instalment Credit Repaid*	$ Billions	May	3.4	3.4	3.3
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	May	4.9	3.5	5.3
Budget Expenditures	$ Billions	May	5.8	6.1	5.9
Defense Expenditures	$ Billions	May	3.6	3.6	3.9
Surplus (Def) cum from 7/1	$ Billions	May	(7.0)	(6.0)	(3.8)

PRESENT POSITION AND OUTLOOK

conditions it is unlikely that total business conditions will have been restored fully to the state of inflationary boom that prevailed in 1955. However, there is no gainsaying the fact that an artificial impetus of considerable significance lurks in the Middle East, and deserves close watch.

* * *

PERSONAL INCOME—it should now be entered in the list of more optimistic figures. In June, the annual rate of income rose by about $2 billion. What is notable about the rise is that it was not the result of an increase in transfer payments such as social security benefits, unemployment insurance, etc., but a real rise in wage and salary payments. In commodity-producing industries, in service industries and in government employment, total payrolls showed a moderate but clear advance.

At its June level, personal income was only imperceptibly below its all-time record of mid-1957, which might suggest that this has been a pretty *de luxe* type of recession. However, while wages and salary payments have recently begun to rise again, they are still several billion below the rate of a year ago; the big gainer of the past year has been unemployment compensation payments. Even dividend income, which rose during the 1954 recession, has been declining in 1958.

* * *

FARM INCOME—in the first half of 1958, the income of farm operators (which is part of personal income, as described above) has evidently run fully 15% ahead of a year ago. The result appears as a stimulus in farm machinery markets, and in the demand for steel galvanized products and fencing products widely used in the farm economy. However, the rise in prices of farm products, which has been mainly responsible for the improvement of farm income, has apparently come to a halt. **Result: no further expansion of the agricultural prosperity in the remainder of the year, and no further rise in the food component of the consumer price index.**

* * *

CONSTRUCTION—this key element in the 1958 recession appears to be in for a broad improvement. In May and June, contract awards for both residential and nonresidential construction evidently rose, and residential housing starts climbed to the best level in about two years. Judging from applications for government-

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 I Quarter	1957 IV Quarter	1957 III Quarter	1957 I Quarter
GROSS NATIONAL PRODUCT	425.8	438.9	445.6	436.3
Personal Consumption	286.2	287.2	288.3	279.8
Private Domestic Invest.	49.6	61.5	66.7	65.9
Net Foreign Investment	0.5	1.9	3.6	4.2
Government Purchases	89.5	88.3	87.0	86.4
Federal	50.9	50.5	50.9	50.5
State & Local	38.6	37.8	36.1	35.9
PERSONAL INCOME	347.3	349.7	351.8	342.3
Tax & Nontax Payments	42.3	43.0	43.1	42.3
Disposable Income	305.0	306.8	308.7	300.0
Consumption Expenditures	286.2	287.2	288.3	279.8
Personal Saving—d	18.8	19.6	20.4	20.3
CORPORATE PRE-TAX PROFITS		37.5	41.8	43.9
Corporate Taxes		19.1	21.3	22.4
Corporate Net Profit		18.3	20.4	21.5
Dividend Payments		11.7	12.6	12.4
Retained Earnings			7.8	9.1
PLANT & EQUIPMENT OUTLAYS	32.4	36.2	37.8	36.9

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	July 12	273.2	273.1	289.5
MWS Index—per capita*	1935-'9-100	July 12	203.9	203.8	220.0
Steel Production	% of Capacity	July 20	54.9	53.4	79.3
Auto and Truck Production	Thousands	July 19	100	88	139
Paperboard Production	Thousand Tons	July 12	134	194	154
Paperboard New Orders	Thousand Tons	July 12	191	229	199
Electric Power Output*	1947-'49-100	July 12	226.7	230.0	231.4
Freight Carloadings	Thousand Cars	July 12	491	458	692
Engineering Constr. Awards	$ Millions	July 17	733	559	386
Department Store Sales	1947-'9-100	July 12	116	102	104
Demand Deposits—c	$ Billions	July 9	54.8	54.6	54.8
Business Failures	Number	July 9	275	292	256

PRESENT POSITION AND OUTLOOK

aided mortgages to the FHA and VA, a strong rate of starts seems to be in the cards for the rest of the year.

On top of renewed private construction activity, the rate of public contract awards has recently been spurting to levels not reached since the days of atomic-energy-plant awards more than five years ago. Included in the burst of public awards are roadbuilding contracts, school contracts, other public institutional facilities. One side effect is already apparent: construction employment is in an uptrend. Another side effect, about to emerge: strength in a broad range of construction equipment markets. This may be the long awaited flowering in demand for construction equipment, which was expected as much as two years ago, when the roadbuilding program was making its way through the halls of Congress.

* * *

NOTE ON INVENTORIES—after over a year of increases, inventory-sales ratios in manufacturing industries have finally rolled over and started down. **This reversal of the trend of the ratios, which occurs when sales stop falling though inventory is still declining, usually signals the emergence of inventory demand, and an end of liquidation.**

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958 Range High	1958 Range Low	1958 July 11	1958 July 18
300 Combined Average	337.0	283.9	336.7	337.0H
4 Agricultural Implements	267.4	196.5	267.4	267.4
3 Air Cond. ('53 Cl.—100)	106.8	87.8	105.0	104.2
9 Aircraft ('27 Cl.—100)	1188.5	982.2	1139.4	1188.5H
7 Airlines ('27 Cl.—100)	786.7	638.8	780.8	763.0
4 Aluminum ('53 Cl.—100)	309.1	253.4	293.9	304.1
6 Amusements	165.4	125.0	165.4	159.5
8 Automobile Accessories	338.8	298.9	333.1	338.8H
6 Automobiles	51.1	40.8	49.9	51.1H
4 Baking ('26 Cl.—100)	34.9	28.5	34.6	34.9H
4 Business Machines	1053.7	898.2	1027.8	1010.5
6 Chemicals	566.1	509.5	555.8	566.1H
5 Coal Mining	22.9	18.4	22.2	22.4
4 Communications	106.7	85.7	106.7	103.3
9 Construction	124.2	107.5	124.2	123.2
7 Containers	913.3	707.3	913.3	906.4
7 Copper Mining	228.5	184.6	219.4	228.5H
2 Dairy Products	137.4	115.6	137.4	136.3
6 Department Stores	95.4	78.9	95.4	95.4
5 Drugs-Eth. ('53 Cl.—100)	292.0	217.2	292.0	287.3
6 Elec. Eqp. ('53 Cl.—100)	214.8	195.8	214.8	211.0
2 Finance Companies	669.1	568.8	652.4	652.4
6 Food Brands	340.7	255.5	338.2	340.7H
3 Food Stores	224.1	182.2	224.1	218.6

(Nov. 14, 1936 Cl.—100)	1958 Range High	1958 Range Low	1958 July 11	1958 July 18
100 High Priced Stocks	223.5	189.7	221.4	223.5H
100 Low Priced Stocks	411.4	334.7	411.1	405.6
5 Gold Mining	772.5	530.5	715.9	648.9
4 Investment Trusts	160.9	144.4	158.1	159.5
3 Liquor ('27 Cl.—100)	1092.5	913.4	1074.6	1092.5H
8 Machinery	374.7	343.8	374.7	374.7
3 Mail Order	202.8	143.3	201.4	196.0
4 Meat Packing	161.2	123.6	156.8	151.2
5 Metal Fabr. ('53 Cl.—100)	161.1	138.1	144.9	148.9
9 Metals, Miscellaneous	321.0	276.3	313.1	321.0H
4 Paper	968.1	841.8	968.1	968.1
22 Petroleum	790.4	629.7	771.7	790.4H
21 Public Utilities	307.6	258.9	307.6	302.4
7 Railroad Equipment	72.3	59.2	72.3	72.3
20 Railroads	54.2	43.0	53.4	54.2H
3 Soft Drinks	550.5	445.6	546.1	533.0
12 Steel & Iron	297.2	249.3	280.4	297.2H
4 Sugar	123.5	102.8	121.5	123.5
2 Sulphur	720.9	543.4	720.9	715.5
10 Television ('27 Cl.—100)	37.8	28.8	37.8	37.5
5 Textiles	123.6	106.9	119.7	120.7
3 Tires & Rubber	160.9	142.3	157.8	160.9
5 Tobacco	147.1	110.9	147.1	145.0
2 Variety Stores	300.7	239.3	300.7	296.3
17 Unclassif'd ('49 Cl.—100)	174.2	145.4	174.2	171.5

H—New High for 1958.

Trend of Commodities

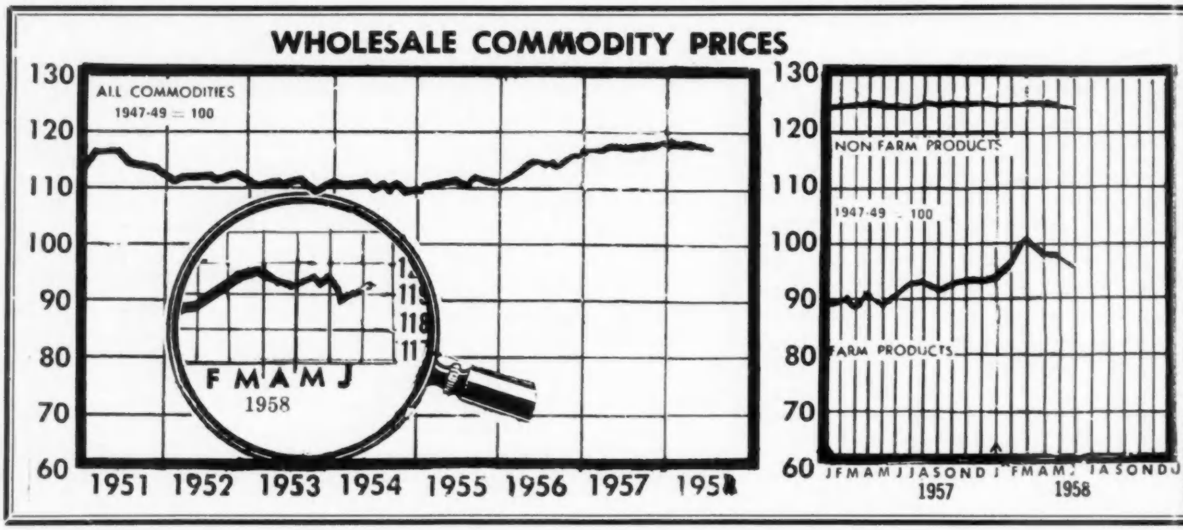
SPOT MARKETS—Sensitive industrial commodities were strong in the two weeks ending July 18, with the main impetus coming from the Middle East crisis. At the same time, food prices were hesitant, reflecting increased supplies. The BLS index of 22 sensitive commodities rose 1.2% in the period under review, as the result of a 2.4% gain for the raw industrial material component.

Meanwhile, the broad range of commodities, outside of farm products and foods, also improved in the first two weeks of July, with the BLS' comprehensive index of such commodities rising 0.3%, to approach its previous peak. The course of the Middle East crisis is the main price determinant at this time. Easing of tension there would undoubtedly make for softening of prices.

Virtually all futures markets were buoyant in the two weeks ending July 18, reflecting the effects of the "war scare" in the Middle East. The Dow-Jones Commodity Futures Index advanced 3.37 points during the period, to reach a new high since December, 1957.

Wheat futures spurted ahead in the fortnight under review, with the September option adding 8¼ cents to close at 192. Farmers encouraged the upward movement by holding wheat off the market in evident dissatisfaction with an average farm price that was recently some 15 cents under the Government loan level.

In recent days signs have been increasing that the tension in the Middle East is beginning to ease and this could make for a lower commodity price trend for the near-term.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	July 15	119.2	119.2	118.2	60.2
Farm Products	July 15	95.0	96.5	92.8	51.0
Non-Farm Products	July 15	125.7	125.3	125.7	67.0
22 Sensitive Commodities	July 18	87.1	86.0	90.3	53.0
9 Foods	July 18	89.4	90.0	86.9	46.5
13 Raw Ind'l. Materials	July 18	85.4	83.3	92.7	58.3
5 Metals	July 18	88.7	86.5	102.9	54.6
4 Textiles	July 18	79.7	77.3	83.3	56.3

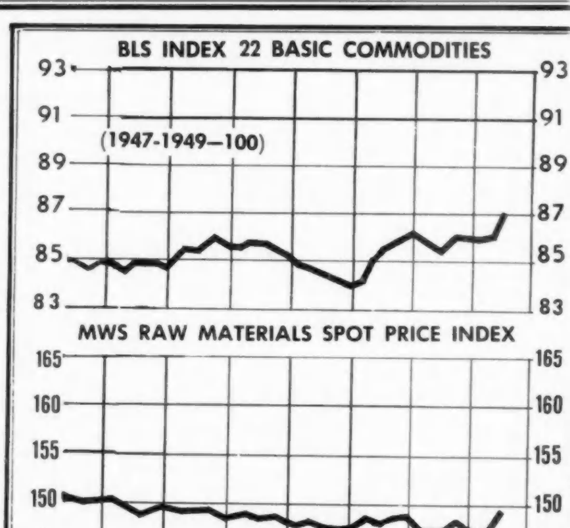
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1958	1957	1953	1951	1945	1941
High of Year	150.2	166.3	162.2	215.4	98.9	85.7
Low of Year	147.1	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	160.1	163.4	166.5	214.5	106.4	84.6
Low of Year	154.1	153.8	166.8	189.4	105.9	84.1
Close of Year		156.5	147.9	176.4	96.7	74.3



Electronic and T.V. Companies

(*Continued from page* 525)

there had been no recession. As it is, some observers expect a drop as large as 40 per cent through 1962. By way of confirmation it should be pointed out that orders placed in 1957 were for 11 million kw., or about 40 per cent less than the 1956 figure. This year's deliveries, however, are largely for orders placed in 1956.

Since capital equipment represents the lions' share of business for both General Electric and Westinghouse the projected decline will necessarily affect their operations seriously.

GE, with a long record of highly efficient operations, an almost unmatched research and new product development record, and a vital place in the defense program should be able to find ample offsets to this situation.

Westinghouse, on the other hand, because of a less favorable product mix, may have more difficulty. Production of electrical distributing equipment may take up some slack, but for a company with low profit margins at its current rate of business, cutbacks in the highly profitable generating equipment business could hurt.

There are no doubts that both companies will weather the cutbacks, but Westinghouse may find difficulty in maintaining its 1957 level of earnings, while GE will be hard pressed to maintain the earnings growth it has shown in recent years.

Military Electronics

Recent developments in military electronics point up, emphatically, the exceptional long term growth potential of the entire field of electronics and underscore the growth-stock price earnings ratios the market bestows on many of the stocks in the group.

Within just the past year, it has become obvious that in addition to the inroads electronics has made throughout the industrial economy it has now preempted a large share of the defense business that formerly was the special province of the aircraft producers.

The reason is fairly simple. A guided missile is essentially a flying mass of electronic gadgetry in which the electronic components are as important as the airframe that carries the payload. As a result electronics companies, in addition to the enormous amount of work they do for the aircraft industry, are well represented among the prime missile contractors. GE, Philco, Raytheon, Bendix and several others are among the prime contractors outside of the aircraft industry, and several others are in the running for contracts still to be let.

The missile program provides a handy peg for judging the enormous role electronics plays in our economy today. In 1958, the industry estimates that it will garner 23 per cent of all defense funds and the figure will be even larger in 1959 if the missile program continues to dominate the nation's defense thinking. All in all, the electronics producers will do about $4 billion in defense business this year compared to $3.5 billion in 1957, and total factory sales for all segments of the industry will tote up to over $7 billion. Moreover, at its current rate of growth it could supplant the automobile producers as our number one industry in a few short years.

Defense Profits Slim

But if the sales picture is exceptionally good, there has been no change in the relatively low profitability of defense business. Thus, while business will be booming for many of the companies, stockholders can expect little in the way of huge earnings or enlarged dividends, for many companies. As a result, leading stocks which sell at high price/earnings ratios and very low yields will remain vulnerable to changes in defense strategy, production bottlenecks eating away already small profit margins, and government fiscal difficulties which might again lead to a situation similar to the disastrous stretchouts of mid-1957. Paradoxically, however, the best performances in the near future will probably be turned in by those companies primarily engaged in defense work. The reason stems from the steadiness of this type of business, while absence of commercial contracts will insulate the companies from gyrations in the civilian economy.

Raytheon Manufacturing is possibly the best case in point having

successfully completed its transformation from a secondary radio and television producer to a major defense missile and electronics producer. The company is now prime contractor on two high priority missiles, the Navy's Sparrow III and the Army's Hawk, as well as an important supplier of all types of military electronic equipment. The effect of this change in Raytheon's business has been impressive. Sales, which were only $175 million as recently as 1956 will reach over $320 million by the end of 1958. Profits bounded to $2.42 in 1957 from 70¢ the year earlier and further improvement should follow this year. Start up expenses of some new projects may prevent large gains over last year's earnings, but by 1959 the company's huge backlog should begin to produce higher earnings so that a return to cash dividends by early 1959 seems a distinct possibility.

Minneapolis-Honeywell, by contrast, which enjoys a deserved reputation as one of our prime growth stocks, will have its sales growth in the military field moderated by setbacks in the civilian sector. A prime producer of all types of electronic control devices, the lower level of activity in the building trades in the first quarter, combined with decreased demand for industrial controls, caused a first quarter sales drop for the first time since 1952. Earnings for the period slipped to 61¢ a share, marking the fourth successive quarter of lower earnings, despite a pick up in defense business.

Product lines are so strong, and the company so well entrenched that earnings for the rest of the year should compare more favorably with last year, but there nevertheless, will be a considerable abatement in the record of rapid growth demonstrated in the postwar era. Of particular significance will be the ultimate success of the company's Datamatic Division which now accounts for about 10 per cent of Honeywell's total assets yet produces absolutely no profit. (For a complete rundown on how computer manufactures generally, can be expected to fare, see the following article in this issue of THE MAGAZINE OF WALL STREET.)

Radio and Television

Commercial telecasting, along with the sale of manufactured television sets, has enjoyed one of the most rapid booms in industrial history. Profits, however, have tended to be erratic, and the current period is no exception. During most of the 1957-1958 broadcasting season revenues were high as purchased time comprised a high percentage of total air time. Signs are appearing now, however, that advertisers are less eager in their bidding for prime space next fall, and that the high cost of TV programming is beginning to take its toll.

Paradoxically, the outlook for receiver sets is better now than in recent years since production cutbacks have dug deeply into manufacturer's and dealer's inventories. Combined with the comeback scored by radio and phonograph production and sales, the set makers may be in for better results than the exceptionally depressed showings of the past few years.

Radio Corporation of America, the huge giant dominating the entire radio and television industry will continue to be a study in contradictions, however. Sales of receivers should be better, or at least more profitable in the period ahead, even if total industry sales fail to top last year's 6.4 million TV sets. Broadcasting and television earnings, on the other hand will continue to suffer from the heavy investment in color TV, in addition to the slowdown that threatens for the fall program season. Helping to stabilize earnings, however, will be the large increase in defense business and the growing role the company will play in the new huge defense warning system. RCA, as the prime contractor, already has contracts for some $700 million for the project. Dividends should be covered but earnings large enough to justify an increase are hard to visualize.

Zenith, on the other hand, which has cut out a special niche for itself as the most profitable producer of television, radio and phonograph sets, shows no signs of slowing its earnings growth. Contrary to the general industry pattern, sales climbed to $42.2 million in the first quarter from $36.7 million a year ago, and earnings bounded to $2.07 per share from $1.68. With earnings projected to at least $8.75 for the year, no doubts exist concerning the regular quarterly dividend or year end extra, which together totaled $2.50 last year. The stability of the company's high level of earnings, moreover, could lead to a change in dividend policy establishing a 75¢ to a $1.00 dividend as the regular quarterly payout.

Among the other producers, a mixed pattern continues.

Philco's large defense contracts should partially offset its sub-par TV operation, but exciting earnings improvement still seems a way off.

Sylvania, however, may well hit the comeback trail in the third and fourth quarters of the year. Sales and earnings from lighting equipment remain high, but in the first half of the year drastic cutbacks of component parts inventories by other TV manufacturers caused a sharp drop in Sylvania's electronic and picture tube divisions. By the end of the second quarter inventories should be at rock bottom, indicating a business pick up for Sylvania, even if the overall level of set sales fails to improve. A return to last year's $3.48 per share is doubtful, but by year end $3.00 per share earnings are probable despite the sharp earnings drop in the initial half of the year. Moreover, the improvement should continue in 1959, indicating better coverage for the 50¢ quarterly dividend. A note of warning, however. If earnings fail to pick up by the third quarter, a cut in the dividend seems a foregone conclusion.

Home Appliances

Despite the stability of consumer disposable income during the current recession, sales of large consumer durables have continued to lag. Individual items such as garbage disposal units and clothes driers have scored gains, but the major items including refrigerators, washing machines, etc. have remained depressed. A pick up in new home building may lead to slight improvement for the balance of the year, but not enough to return exciting earnings results. Typical of the major appliance makers is **Whirlpool Corp.** The company scored an impressive sales advance in 1957, but by the first quarter of this year sales had sunk far below year earlier levels. As a result, earnings dropped to 29¢ a share from 45¢ last year, and full year earnings will do well to hit $1.25 per share against $1.61 last year. The slump came despite the use of

the prestige "RCA" label on many of its products, a factor which illustrates the appliance fortunes of other major producers such as Westinghouse and GE in this highly competitive field.

In the smaller appliances, the picture is different, however. The virtual death of "fair trade" earlier in the year cleared dealer's shelves of irons, toasters and the like and spurred new production by the manufacturers. Moreover, the public's taste for these items seems to have been whetted by the generally lower price level that now prevails at retail.

Sunbeam, a prime manufacturer of small electrical appliances, should be among the principal beneficiaries of this new upswing. The company, moreover, has consistently demonstrated its ability to turn a good profit, regardless of the condition of the market. The end of "fair trade" may temporarily interfere with profit margins indicating slightly lower earnings for this year, but operational improvements could reverse the situation toward year end.

McGraw-Edison, similarly will benefit through its Toastmaster Division. Overall operations, however, will remain below last year's levels as shipments of utility equipment continue to slide. Earnings in the first quarter dropped to 39¢ a share, affording scant coverage for the 35¢ quarterly dividend. However, scheduled shipments of utility equipment appear large enough to improve the coverage as the year progresses.

Industrial Electrical Equipment

Along with other producers of capital equipment, the makers of electrical equipment have suffered from the sharp cutback in capital expenditures. Aside from fewer calls for plant equipment such as power sources, fuse boxes, etc., the electronic controls makers have also been hurt by the cutbacks in the purchase of electronically controlled machines. Disturbingly, the outlook for capital spending in 1959 looks no better than it is at present, indicating leaner profits for a fairly extended period.

Square D is typical of the electrical equipment producers. It experienced a sharp sales drop in the first quarter and a drop in earnings to 27¢ per share from 49¢ in the same period a year ago. As with other producers, the company is also saddled, currently, with substantially expanded plant facilities which must be a drag on earnings until business picks up enough to warrant full utilization of the new facilities.

Dividends, which equalled 98¢ a share last year may be barely covered this year, placing the stability of payments in doubt. On the favorable side, however, is the fact that the company's own capital expenditures have been sharply reduced, cutting down the need for large cash reserves. Nevertheless, prudence dictates that a cut be watched for if earnings improvement fails to develop as the year progresses.

Cutler-Hammer similarly suffered sharp reverses in the first quarter when earnings fell to 81¢ a share from $1.23 last year. Moreover, the company recently merged with Airborne Instruments, a move which the company itself conceded will produce lower initial per share earnings than would have been shown by Cutler-Hammer alone.

As a result, earnings for the year may not reach $3.25 compared with $4.51 last year and $5.23 in 1956. Under the circumstances the probability is high that the 50¢ year-end extra will be passed up by the directors this year, even though operations will cover the regular 50¢ quarterly payment.

Investment Summary

As in most recent years, performance in the electronics industry this year will vary widely, depending on product mix and the ability of companies to shift quickly from unprofitable to profitable lines. On balance the large defense contractors appear best situated at the moment, with highly specialized companies such

as Raytheon standing the best chances of scoring impressive earnings. Nevertheless, the market has a propensity to bid temporarily successful electronic producers up to high price-earnings ratios, indicating that caution is required in making commitments even in the better performing companies.

Electronics still has exceptional growth ahead, possibly greater than its phenomenal growth to date. However, most fields are highly competitive, and the industry is wide open to newcomers with the resources to invest in research and development facilities. Consequently a continuation of the previous pattern of rapid sales growth for the industry, but slim profits for many individual producers seems in the cards. Commitments must remain highly selective, therefore, since dividend policies will remain irregular while the high market evaluation of earnings will pose a constant threat of price vulnerability. END

Agricultural Machinery Makers

(*Continued from page* 533)

peak before they began a seven year decline. Precise data on the average age of tractors, combines, corn-pickers and similar equipment are lacking. But there is at least one reassuring figure on this replacement market. These years 1947-1951 represented the largest sales in the history of the industry, and machines sold then, now are seven to eleven years old. Even allowing for those which have already been replaced, the low level of sales in recent years suggests that the present replacement market may indeed be large. But there is the question of when farm equipment needs to be replaced.

No one is more interested in this than International Harvester, Deere, and others of the top-drawer category. They generally figure between five and ten years before the original equipment sale needs to be replaced, depending on how well it has been maintained, and what the farm income picture will finance. In this connection it pays to realize how expensive farm equipment is.

To equip a 500 acre western farm, which is what Iowa or Oklahoma types would call a family farm, costs about $50,000 in overall farm equipment. As a matter of fact you would need upwards of $250M in equipment just to make a splash with a Long Island potato farm.

Using a five to ten year cycle for estimating replacement markets, and setting this against farm income levels, the arithmetic comes out rather interesting from the investment viewpoint. The most prosperous period in the industry's recent history was from 1947-1951, i.e. seven to eleven years ago, while farm income for 1958 is expected to be at the best levels since 1951.

Consequently, the evidence points to the conclusion that the near term sales outlook for the farm equipment industry is bright. So much for near term prospects. We must give thought to longer term prospects.

Vanishing American . . . Man with the hoe . . .

From 1940 to 1956 there was a decline of 28% in the farm population of the United States, this decline being in striking contrast to the growth which has marked almost every other aspect of American life. There was also a decline of 600,000 farms from 1950 to 1954. And at the same time the Department of Agriculture has been reeling under huge crop surpluses and seeking to reduce farm acreage with its soil bank program and lower support levels for crop loans. Despite shrinkage in certain aspects of the farm economy, this year's crops were of bumper proportions.

The answer must of necessity be found in the fact that the average farm is becoming larger, more mechanized, and more efficient as a farm. And this same pattern seems likely to continue, indeed intensify.

The Department of Agriculture estimates that to feed the larger population anticipated for 1975 will require an increase of 45% in livestock production and 25% in overall crop production. And yet it is also indicated that the new acreage available to meet this level will total only about 25,000,000 acres, a gain of only 2.5% over present acreage. Consequently, to meet the projected food needs of the population 17 years hence will require an increase in average yield per acre of about 27%.

This can hardly be done by using more hired hands with hoes. At least part of the answer must be found in further increases in intensive cultivation and yields per acre similar to those scored by the use of hybrid seed in the corn belt, a development which almost assures that the country will never run out of pork chops, Malthus notwithstanding. And more intense cultivation must of necessity involve greater mechanization per farm and per acre. This can hardly be called adverse for the farm equipment industry's longer term outlook. We turn now to brief comments on the leader companies.

International Harvester, long the leader in the industry, got off to a poor start for the current fiscal year. Sales for the three months ended January 31, 1958 were 14% below year earlier levels, but those for the six months ended April 30, 1958 were down only 9%, reflecting the improvement in sales of farm equipment and other lines which developed during the second quarter. Earnings for the six months ended April 30, 1958 were $1.18 a share as against $1.20 a year previous. Prospects are that earnings for the full year ending October 31, 1958 may compare favorably with the $2.88 reported for fiscal 1957, although final figures will depend in part on sales of trucks and industrial equipment. Current dividends of $0.50 quarterly appear quite secure.

Deere & Company has reported a similar pattern. Following a poor first fiscal quarter, improved sales during the second quarter lifted sales for the six months ended April 30, 1958 to 5% over those of the year earlier period. Share earnings for the recent six months were $2.25, up from $2.10 the year before, and earnings for the year ending October 31, 1958 are expected to exceed last year's $3.96. Prospects are that the current annual dividend of $1.50 will be supplemented by a year end extra equal to the $0.25 paid last year.

J. I. Case Co. and Oliver Corp., the two other leading farm equipment manufacturers also reported improved operations for the fiscal half ended on April 30, last. **Case** showed a loss of $0.10 per share for the period as against a loss of $1.18 a share for the year earlier period. On its part **Oliver** reported

a profit of $0.10 a share for the six months compared with a loss of $0.28 a share the year before. Case may earn close to $2.00 a share for the year ending October 31, 1958, and Oliver should do materially better than the $0.13 a share logged in 1957. Despite the improved earnings outlook, Case is not expected to resume dividend payments in the near future.

Current Outlook

The interim sales and earnings data on the leaders in the industry reflect the improved conditions in the main farm areas. Moreover, in view of the level of farm income, it seems very probable that the improvement will continue at least through the fiscal year ending October 31, 1958 and may carry over in fiscal 1959.

—END

Mixed Outlook Among Individual Office Equipment Companies

(*Continued from page* 528)

Sales in the first quarter scored a normal advance to $11.7 million from $11.4 million last year, and earnings were unchanged from the 70¢ per share reported in the first three months of 1957. Start-up expenses for new productive facilities kept earnings from keeping pace with sales growth, and may continue to do so for the next few quarters, but earnings for the year should still equal last year's $3.07 per share. The end of the $6.7 million expansion program, however, enhances the chances for liberalization of the dividend in the not too distant future.

An interesting facet of Pitney-Bowes operations this year is the speed with which it placed a 16-point crash sales program in effect as soon as the recession threatened its new order rate. As a result, new orders this year are keeping pace with 1957 despite the general business recession.

Mixed Outlook for Diversified Producers

As with other members of the electronics industry, the highly diversified computer makers are reporting results that vary sharply with their product mix. **Sperry-Rand**, for example, despite a moderate sales increase has seen its earnings deteriorate steadily in the last year for a number of different reasons. Among the more important culprits in addition to the recession are the heavy expenses connected with "Univac" production. Although second to IBM as a major computer producer, the Remington Rand Division has been weighted down by rapid obsolescence of its product, necessitating frequent redesigning.

In addition, the defense stretch-outs of last year interfered with production schedules, preventing Sperry from offsetting the higher costs of performing on defense contracts.

Despite its recent troubles, however, there are indications that Sperry has seen its worst days, and that the 19¢ per share earned in the March quarter may be close to the low water mark for the company. For one thing, Sperry is one of the most important innovators in the rocket and missile fields and has recently received a large number of contracts in this area. In addition, orders for Univacs have picked up substantially in recent months indicating that the current model is proving satisfactory.

Some income tax difficulties still have to be overcome, and depreciation charges will remain high for some time to come, so that immediate earnings growth will not be exceptional. Nevertheless, a definite turn seems in the making.

Summary

Despite some sluggishness early this year, the office equipment makers continued to benefit from the extraordinary growth of computer sales. From nothing as recently as 1950, total computer sales rose to $350 million last

year, and the more optimistic exponents of computer technology foresee triple that figure by 1960.

Actually, such exceptional growth will not be required for the industry to lay claim to growth status. But concrete earnings must begin to show up for producers besides IBM and the relatively few others who have so far been able to turn a profit, before the high market evaluation of the stocks can be completely justified.

Until now, major profits from computers have stemmed from the defense program, especially since missiles are for all practical purposes, "flying computers." But a sound position in the civilian economy is necessary before the industry can feel fully secure, since the vagaries of governmental defense policies cannot be counted on for sure growth.

In any event, it is apparent that the fortunes of most individual companies in the field will vary with the success they achieve in developing advanced electronic equipment. For this reason the corporations that are still essentially typewriter and accounting machine manufacturers, such as Smith-Marchant and Royal-McBee have a long uphill fight to establish themselves in the new field, while such stalwarts as IBM, National Cash Register and probably Sperry-Rand will reap the major benefits from both the military and civilian economy. —END

What the U.S. Is Doing to Counteract Soviet Economic Warfare

(*Continued from page* 521)

consisted of binding rates for goods which already entered our market duty free."

These data support the principle which underscores the Free World's trade and aid policy, in contrast to the red effort, namely, that one country's gain does not need to cause another country's loss. The United States is in a position to offer chapter-and-verse proof to the under-developed countries that this has been the case, and that the success can be duplicated again. There is no rebuttal available to the commies whose sample case contains promises which suffer against a background of pledges ignored, gifts that can at best bring only temporary prosperity and no hope of stability, plus low interest rate and immediate raw material purchases which are palpably "come on's."

No responsible authority in government denies that the policy being carried out by the United States will hurt some individual companies, at least temporarily. But this is the price paid for technological progress also. If it were otherwise, there would be no trade or tariff problem. Success of the policy depends upon realization that international business is a two-way street — an expression which may sound hackneyed, but a truism which hadn't registered with many industry witnesses who appeared before congressional committees when the Hull Act extension was up, and with many firms which have piled high, the desks of U.S. Tariff Commission members.

The New "Common Markets"

Just because the United States still is leading the economy of the free world, the threat of Soviet economic warfare cannot be dismissed. Although our economy has grown phenomenally since World War II, the rate of growth has been matched and exceeded elsewhere. Western Europe has had a rebirth of industrial vitality; Latin America is forging ahead; Asia and the Middle East have been raising their sights. The strength of Russia and Western Europe has offered the Asian countries increasing opportunities to turn to those quarters for aid. We no longer have quite the monopoly in strength and surplus we had a decade ago. Out of the very fact of closely matching strength of the United States and Russia in some major respects, has come economic and political mergers. The European Common Market for example which will start off comparing favorably with our population and our potential development. Asian, South American, Central American and Nordic groups have such amalgamations in the talk stage. Many countries which cannot hope to gain strength on their own, see in these economic mergers a mass market free of trade and other economic barriers. In these developments may be found the warning note to the United States that country-by-country reciprocal trade agreements may not be enough; that we must continue our partnerships in the larger groups which constitute the Free World.

Development Aid

Most of our foreign aid programs are administered by the International Cooperation Administration which works closely with the State Department. One of the newer programs now being used is the Development Loan Fund. Creation of the Development Loan Fund coincided with, if it was not actually inspired by Russia's stepped-up economic offensive. In each of the many official studies of aid and trade some, or much, emphasis was placed on the need for reinforcing the economies of the less developed countries. Typically, their annual product per person amounts to about $200 compared to $2300 and more in this country and in Western Europe. This meant poverty, inadequate nutrition, shortened life expectancy. The communists have been alert to the political advantage which might be capitalized upon. Their offer is a short-cut to progress which has been aspired to only since means of communication improved and a World War made these nations feel closer kinship to other countries.

To gain a foothold in the underdeveloped countries it probably will be necessary for our government to play a larger role than it has in the past. Private capital, understandably, is not very interested. The great bulk of foreign investment has gone to the oil producing countries of the Middle East, leaving little for the rest of Asia and Africa. So the Development Loan Fund has become the Soviet's closest competitor, enjoined from competing with private capital, but with lending latitude within the limits of its $300 million appropriation voted last September when the agency set up shop. The need was immediately demonstrated: by the end of December, more than $500 million in loan proposals were at hand; one month later it had soared to $1.4 billion; by June 30, 1959, requests are expected to aggregate $3.5 billion. In the Mutual Security appropriation bill now in Congress an additional $625 million is asked, to be added to the original $300 million in a revolving fund operation. The first appropriation has been almost wholly allocated. Goal of the Fund is an

annual $1 billion appropriation, beginning next year.

Proof of this country's intention to see the under-developed nations through, is the fact that every requirement for approval of a loan looks to improvement of private enterprise, confined largely to power, transport and other public facilities on which private industrial and agricultural enterprise depends. Interest rate is 3.5 per cent with up to 40 years maturity on basic facilities such as roads, harbors, railroads and dams; there are higher rates for profit producing enterprises. Repayment in local currencies is acceptable. Linked to developmental loans must be action to create markets for exports, and ease their movement. This is not a function of the DLF but comes within other divisions of the mutual aid program. And the developmental loans will go for naught unless the outlet is provided.

The Communist economic threat cannot be overcome simply by tariff refinements, the flow of private investment of capital, or any other single curative but it must be met by a series of interlocking steps. Returning from a Presidential Commission to study trade policy and its effects abroad, Clarence B. Randall offered this advice:

"The greatest roadblock of all to the creation by the United States of a foreign economic policy that boldly suits the responsibility that our country bears in the modern world is the inability of our business community to place the national interest above self-interest. Rare indeed is the company or the trade association that asks first the question of what is best for all of the people, and only secondarily what will help the marketing of a particular product. In the abstract, businessmen by an overwhelming majority favor the rising volume of world trade that liberalization would bring but they want it applied to some industry other than their own.

"Our foreign economic policy must be reformulated boldly to achieve two ends: One, the implementing of our program for national security, and the other, the creation of a steadily developing volume of world trade for the support of our own economy."

END

How Much Will Rail Equipment Earnings Improve — And When?

(Continued from page 531)

the rail equipment group as a whole. Profit margins have been consistently wide, and dividends stable, with a rising trend in the background.

General American Transportation has diversified its operations to a large extent, with car leasing as the major source of earnings. Profits have paralleled expansion of the fleet since cars are not built until favorable terms have been obtained from customers. The greatest increase in demand is from the chemical industry. Other sources of income are derived from manufacturing of freight cars, plastics, industrial equipment and defense products. All in all, the company is a composite of several good businesses, which promise to widen the earnings base.

Union Tank Car is the second largest independent car leasor, supplying about 57,000 cars to shippers. The principal customer is the petroleum industry. Exclusive contracts are signed with virtually all Standard Oil units, and this assures stable income. Acquisition late in 1957 of Phoenix Manufacturing Co., including its subsidiary Graver Tank & Manufacturing Co., is expected to inject a measure of growth to operations. A secure and ample dividend return is compensation for shareholders in the interim.

New Devices Provide Savings

With dieselization over 95% complete, major rail systems have been able to invest in other new labor saving devices. In addition to building modern "push-button" freight classification yards, centralized traffic control systems are being installed over many miles of track. These installations permit increased train movements over controlled tracks with fewer stops and reduced manpower for signal operations. Extra track mileage is eliminated and this permits substantial economies in maintenance as well as in tax costs.

While road mileage on which CTC is in use has quadrupled since 1945, a large potential still exists for signal manufacturers.

As these installations increase in scope, they will result in added operating economies to the railroads. The savings derived can be devoted to new equipment purchases.

There are two companies prominent in signalling devices, namely General Railway Signal and Westinghouse Air Brake's Union Switch & Signal division. Since patents are pooled by the major firms, competition is orderly. Immense savings are provided through new signalling devices,

and the future prospects of the participating companies are bright. Of the two firms listed, General Railway Signal should benefit more, since a proportionately higher percentage of its income is derived from this source.

General Railway Signal products include intricate electronic centralized control systems, automatic control switching systems for classification yards, speed controls and many other safety items. Its sales base has broadened in recent years reflecting the substantial savings for the railroads obtained by the installation of the new devices. While the business slump has caused many rail systems to defer improvement projects, future sales and earnings potentials are bright. Margins are wide and price increases are not hard to come by since savings by the rails are large.

Westinghouse Air Brake: Although the company's Union Switch & Signal division is slightly larger than General Railway Signal, it is a relatively small part of the over-all operation. This factor tends to overshadow growth in the division. Diversification has played a major role in Westinghouse Air Brake's picture in recent years. An important factor in the rail air brake and switching business, the company has expanded into electronics, oil well equipment and earth-moving lines. Through such acquisitions, rail equipment sales have been pared to around a third of total volume. Lower earnings are in store for this year, but the lessening of dependence on rail orders could lead to a wider and more stable earnings base eventually.

Locomotive Business Fades

With the transition from steam to diesel power virtually complete, long-range prospects for this segment of the rail equipment industry will depend in the future largely on replacement volume.

Electro-Motive Division of General Motors, which developed the diesel locomotive has been the sales leader nearly all the way. It accounted for 83% of total orders in 1957. Alco Products, in the second ranking spot, was well behind with 13%. Fairbanks Morse has a small position, and Baldwin-Lima-Hamilton has left the field.

Facing up to the limited future in this field, Alco Products energetically pursued a diversification program. Efforts have begun to take hold, with diesel locomotive shipments in 1957 totaling only around 22% of gross. In addition to substantial replacement volume for the railroads, company produces reactors, heat exchangers for the atomic energy industry, pressure vessels, oil refining and distillation equipment, etc. Research and development costs are high at present but should pay off in time. Improved earnings are in prospect for 1958, and long-term outlook encouraging.

Passenger equipment manufacturing is the weakest segment of the railroad equipment industry. Passenger travel has declined steadily in the past thirty years, reflecting competition from automobiles, buses and airplanes. Rising costs and reluctance of local authorities to allow discontinuance of unprofitable runs have resulted in deficit passenger operations for most of the railroads. Therefore, they have been unwilling to throw good money after bad, particularly since budgets have been tight.

New Cars Introduced

Newly designed light-weight trains have entered the picture in recent years, but railroad managements have not as yet shown much of a desire to invest in the models. It is hoped that the savings derived from usage of the lighter equipment will eventually prompt carriers to come into the market in force. To date, only experimental orders have been received.

Leading manufacturers include Pullman, ACF Industries, Budd Company and General Motors. Budd Company's model has had perhaps the best reception to date. Budd's major interests, however, extend to the production of auto components, jet engine parts, laminated plastics and vulcanized fibre. Postwar revenue growth has been rapid, but the earnings trend is mediocre.

In Conclusion

Considering the small backlogs of orders now on hand, price recovery for rail equipment shares may be slow in materializing. However, as business conditions continue to improve, new orders should begin to flow in at a steady rate, both from the rails and other industries now served by rail equipment manufacturers. In view of this, and with favorable legislation for the rails another plus factor, shares of the better-grade and more diversified firms in the rail equipment group are well worth holding at present prices.

—END

Shocking Sinking Spell in Bonds Caused by Speculators! *What Now?*

(*Continued from page* 509)

Treasury issues remain well above the 1957 lows of last October, though several have given up as much as half of the gains from October to April. Yields, of paramount interest to the investment minded, have risen about $\frac{3}{8}$% and the $3\frac{7}{8}$s of 1974 which had traded to yield only 3.03% in April are now available to yield 3.47%.

TABLE II—Corporate bonds have shown comparable price declines, as underwriters have had to mark up offered yields to attract buyers. Texas Company $3\frac{5}{8}$s of 1983, Aaa-rated, were sold in April at a 3.65% yield to the investor. The subsequent decline in the market sent these bonds down to 97, raising the yield to 3.80%. U. S. Steel's $300 million offering in July, also Aaa-rated, had to be priced to yield 3.97% before it would sell. In general, July was a month in which high-grade corporate bonds had to offer at least 4% to attract investor interest. While this is below the 5% yield level on high quality bonds which was touched or approached in June and October 1957, it is considerably above yields available in any previous year since 1933. The table on page 509 sets out available yields on selected corporate bonds put out in the last year or two.

Many tax-exempt State and local government issues are now available to yield around $2\frac{7}{8}$% on Aaa-rated issues, against $2\frac{5}{8}$% in April and about $3\frac{3}{8}$% last October. By taking a somewhat lesser quality obligation an investor in today's market can get $3\frac{7}{8}$% on a Baa-rated bond, against $3\frac{5}{8}$% in April and about 4.40% last October. Since these yields are tax exempt, they compare favorably with considerably higher yields on taxable Treasury

or corporate bonds. Thus, a $3\frac{7}{8}\%$ yield on a Baa-rated municipal is equivalent, for a taxpayer with $16,000 of taxable income and a 50% marginal tax rate, to a $7\frac{3}{4}\%$ yield on a taxable security.

Bond Market Fundamentals

There is no question that current yield levels in the bond market would be attractive if all that was wrong with the market was a hangover following the overspeculation of last winter and spring. Correction of over-extended speculative positions could then be regarded as a healthy development, inviting investment in bonds. The trouble is that the bond market has to overcome some more serious problems.

The improving tone of business reports is probably the most obvious hurdle the market faces. Bonds go up when business goes down and vice versa. A business upturn might well bring declining bond prices in its wake. Though this need not bother a long pull investor who buys and holds, it could mean losses for anyone forced to sell out before maturity.

It is still too early to be confident that the business upturn is here. On the other hand, it has become increasingly apparent that, there will be little further deterioration in the economy in the next few months and possibly some mild improvement reflecting seasonal forces of expansion in the fall. While the staying power of any improvement in business is going to be severely tested in December, January and February when seasonal slowdown sets in and consumers have a chance to show whether they like the 1959 automobile models, any current investor in bonds will find the intervening months showing more signs of business pick-up than of slowdown.

It is worth remembering that when the business recession got underway last fall, there was rather general agreement that the two main danger spots were consumer spending and housing. If these held up or expanded, the declines in corporate plant and equipment spending and inventory holdings could take place without a serious dislocation of the economy. It is now apparent that consumers have maintained their confidence remarkably well. While no great upward thrust of buying is expected from them, there are also no signs of retrenchment in outlays. Meanwhile, there is evidence that housing construction is responding to the easing of mortgage money and government stimulants. Applications for FHA mortgage insurance in May were the highest in history, and housing starts in June rose to a 1,090,000 annual rate, highest since August 1956. While it remains to be seen whether these houses will be sold, early reports are encouraging. The conclusion is that a major downturn in business has been avoided, at least for the time being.

Treasury Deficit Financing

Another hurdle for the bond market is the growing volume of Treasury deficit financing. President Eisenhower in his July 2 press conference confirmed that a deficit "of the order of $10 billion" is looming for fiscal '59 and revealed that further deficit financing is in prospect for fiscal '60, beginning next July 1, though the Administration's hope is that the deficit "will diminish." The crisis in the Middle East, whether or not it leads to hostilities, will add to the deficits the President had in mind.

While there is little question that the longer run problem of the Treasury is raising cash to cover its deficits, the next few months may find the Treasury making smaller demands on the market for funds than many people expect. Treasury cash balances are unusually high at the moment, reflecting borrowing in the first half of the year, and with the $3 billion scheduled to be borrowed in August there may be need for only $1-2 billion additional borrowing in October, rather than the $3-5 billion figure which many project. If market conditions were substantially better in October, the Treasury might well try to put out a long-term bond again. It would be a mistake to assume the events since June have reduced their belief in the importance of lengthening the debt.

In any case, corporate bond issues are not likely in the latter half of 1958 to continue the torrid $10 billion a year rate of flow established in the first half. The calendar of announced offerings fell to $1 billion late in July, lowest for the year to date and less than half the $2.1 billion peak of March 27. State and local government financing, a record $4.4 billion from January to June, is expected to drop back to about $3.6 billion.

Meanwhile the flow of savings into major savings institutions—Savings and Loan Associations, Mutual Savings Banks, Life Insurance Companies, and Commercial banks—totals $9.7 billion in the first five months of 1958, one-third greater than the $7.2 billion inflow a year ago.

Thus, prospects for some price improvements in bonds over the next few months hinge on some reduction in private demands for funds, a willingness of the Treasury to refrain from offering more long-term bonds until the tone of the market is appreciably better, and the rising flow of savings.

Federal Reserve Bond Buying

The decision of the Federal Reserve authorities to come back into the bond market, after a six year absence, should not be interpreted as a buy signal on bonds. A decision to counter a too rapid decline in bond prices, which was producing a panicky atmosphere and postponements of needed business financing, is far from a decision to push bond prices up. It may even be questioned whether the authorities have a fixed floor at which they intend to maintain bond prices over any period of time. A gradual settling of prices conceivably could be consistent with an unafraid, functioning bond market.

No doubt a major element in the decision to re-enter the bond market was the delicate international situation. A time of crisis and threats of war is hardly a time when a demoralized bond market can be accepted. A basic fundamental is that no war will ever be lost by the United States for lack of financing as long as the Federal Reserve is functioning. The corollary to this is that if the crisis should pass, the authorities might well feel that support of the bond market is no longer crucial.

In any case, even if war should break out and interest rates were to be frozen, the difference between vast profits or vast losses for speculators buying bonds now would hinge on the level at which rates were frozen. Considering the costs in inflation of maintain-

and the future prospects of the participating companies are bright. Of the two firms listed, General Railway Signal should benefit more, since a proportionately higher percentage of its income is derived from this source.

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TABLE II—Corporate bonds have shown comparable price declines, as underwriters have had to mark up offered yields to attract buyers. Texas Company $3\frac{5}{8}$s of 1983, Aaa-rated, were sold in April at a 3.65% yield to the investor. The subsequent decline in the market sent these bonds down to 97, raising the yield to 3.80%. U. S. Steel's $300 million offering in July, also Aaa-rated, had to be priced to yield 3.97% before it would sell. In general, July was a month in which high-grade corporate bonds had to offer at least 4% to attract investor interest. While this is below the 5% yield level on high quality bonds which was touched or approached in June and October 1957, it is considerably above yields available in any previous year since 1933. The table on page 509 sets out available yields on selected corporate bonds put out in the last year or two.

Many tax-exempt State and local government issues are now available to yield around $2\frac{7}{8}$% on Aaa-rated issues, against $2\frac{5}{8}$% in April and about $3\frac{3}{8}$% last October. By taking a somewhat lesser quality obligation an investor in today's market can get $3\frac{7}{8}$% on a Baa-rated bond, against $3\frac{5}{8}$% in April and about 4.40% last October. Since these yields are tax exempt, they compare favorably with considerably higher yields on taxable Treasury

or corporate bonds. Thus, a $3\frac{7}{8}\%$ yield on a Baa-rated municipal is equivalent, for a taxpayer with $16,000 of taxable income and a 50% marginal tax rate, to a $7\frac{3}{4}\%$ yield on a taxable security.

Bond Market Fundamentals

There is no question that current yield levels in the bond market would be attractive if all that was wrong with the market was a hangover following the overspeculation of last winter and spring. Correction of over-extended speculative positions could then be regarded as a healthy development, inviting investment in bonds. The trouble is that the bond market has to overcome some more serious problems.

The improving tone of business reports is probably the most obvious hurdle the market faces. Bonds go up when business goes down and vice versa. A business upturn might well bring declining bond prices in its wake. Though this need not bother a long pull investor who buys and holds, it could mean losses for anyone forced to sell out before maturity.

It is still too early to be confident that the business upturn is here. On the other hand, it has become increasingly apparent that there will be little further deterioration in the economy in the next few months and possibly some mild improvement reflecting seasonal forces of expansion in the fall. While the staying power of any improvement in business is going to be severely tested in December, January and February when seasonal slowdown sets in and consumers have a chance to show whether they like the 1959 automobile models, any current investor in bonds will find the intervening months showing more signs of business pick-up than of slowdown.

It is worth remembering that when the business recession got underway last fall, there was rather general agreement that the two main danger spots were consumer spending and housing. If these held up or expanded, the declines in corporate plant and equipment spending and inventory holdings could take place without a serious dislocation of the economy. It is now apparent that consumers have maintained their confidence remarkably well. While no great upward thrust of buying is expected from them, there are also no signs of retrenchment in outlays. Meanwhile, there is evidence that housing construction is responding to the easing of mortgage money and government stimulants. Applications for FHA mortgage insurance in May were the highest in history, and housing starts in June rose to a 1,090,000 annual rate, highest since August 1956. While it remains to be seen whether these houses will be sold, early reports are encouraging. The conclusion is that a major downturn in business has been avoided, at least for the time being.

Treasury Deficit Financing

Another hurdle for the bond market is the growing volume of Treasury deficit financing. President Eisenhower in his July 2 press conference confirmed that a deficit "of the order of $10 billion" is looming for fiscal '59 and revealed that further deficit financing is in prospect for fiscal '60, beginning next July 1, though the Administration's hope is that the deficit "will diminish." The crisis in the Middle East, whether or not it leads to hostilities, will add to the deficits the President had in mind.

While there is little question that the longer run problem of the Treasury is raising cash to cover its deficits, the next few months may find the Treasury making smaller demands on the market for funds than many people expect. Treasury cash balances are unusually high at the moment, reflecting borrowing in the first half of the year, and with the $3 billion scheduled to be borrowed in August there may be need for only $1-2 billion additional borrowing in October, rather than the $3-5 billion figure which many project. If market conditions were substantially better in October, the Treasury might well try to put out a long-term bond again. It would be a mistake to assume the events since June have reduced their belief in the importance of lengthening the debt.

In any case, corporate bond issues are not likely in the latter half of 1958 to continue the torrid $10 billion a year rate of flow established in the first half. The calendar of announced offerings fell to $1 billion late in July, lowest for the year to date and less than half the $2.1 billion peak of March 27. State and local government financing, a record $4.4 billion from January to June, is expected to drop back to about $3.6 billion.

Meanwhile the flow of savings into major savings institutions—Savings and Loan Associations, Mutual Savings Banks, Life Insurance Companies, and Commercial banks—totals $9.7 billion in the first five months of 1958, one-third greater than the $7.2 billion inflow a year ago.

Thus, prospects for some price improvements in bonds over the next few months hinge on some reduction in private demands for funds, a willingness of the Treasury to refrain from offering more long-term bonds until the tone of the market is appreciably better, and the rising flow of savings.

Federal Reserve Bond Buying

The decision of the Federal Reserve authorities to come back into the bond market, after a six year absence, should not be interpreted as a buy signal on bonds. A decision to counter a too rapid decline in bond prices, which was producing a panicky atmosphere and postponements of needed business financing, is far from a decision to push bond prices up. It may even be questioned whether the authorities have a fixed floor at which they intend to maintain bond prices over any period of time. A gradual settling of prices conceivably could be consistent with an unafraid, functioning bond market.

No doubt a major element in the decision to re-enter the bond market was the delicate international situation. A time of crisis and threats of war is hardly a time when a demoralized bond market can be accepted. A basic fundamental is that no war will ever be lost by the United States for lack of financing as long as the Federal Reserve is functioning. The corollary to this is that if the crisis should pass, the authorities might well feel that support of the bond market is no longer crucial.

In any case, even if war should break out and interest rates were to be frozen, the difference between vast profits or vast losses for speculators buying bonds now would hinge on the level at which rates were frozen. Considering the costs in inflation of maintain-

ing rates at unusually low levels, the probability is that the freeze level would be at or above current levels.

Fears of inflation also were behind the Reserve System's intervention in the bond market. Reassurance to the bond market through large purchases of Treasury bills was possible but meant putting out an excessive volume of reserve funds at a time when business improvement might call for some reduction in the banks' excess reserves. Purchases of bonds have a direct influence on the bond prices at a much smaller cost in terms of reserve funds released. It is conceivable that the next few months may see bond buying to keep the bond market from declining too fast or too far and at the same time sales of Treasury bills to keep bank reserve positions from easing too much.

The conclusion emerges that bonds are attractive at present levels, but they ar far from a "sure thing". Investors interested in a sound, dependable yield from a safe security can buy currently without hesitation. Speculators counting on capital gains need to realize that the big rise in bonds is behind us, that the price peaks have been seen and that though the Federal Reserve will probably protect against serious further price deterioration it is not in business to provide speculative profits. Profits on bond purchases now will have to come from a better balance of the supply and demand for long term funds, and though this is a distinct possibility the risks need to be recognized. END

Shifts in Sales — — Profits and Dividends in the 12 Key Industries

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amply demonstrated by the 27 per cent drop in chemical industry earnings.

Always a highly competitive industry, the companies are now engaged in a dogfight for markets as the supply of basic chemicals has far outstripped demand. Thus increased selling expenses, characteristic of a competitive struggle, added to the financial burdens of tremendously expanded plant capacity have cut deeply into profits.

Where demand for products has held up, such as for **American Cyanamid's** ethical drug operations, relatively good results have been shown. But other major producers such as **Allied Chemical**, whose fortunes are tied directly to the demand for industrial chemicals, have not fared nearly as well. Allied failed to cover its dividend in the first quarter, but slightly better results in the balance of the year and an excellent financial position protect payments for now.

On the other hand, if the recovery is not spirited, companies with weaker cash position, such as Diamond Alkali may be forced to pare dividends.

Durable Goods Situation

Although durable good manufacturers, in toto, suffered a 46.1 per cent drop in after tax net, their plight is moderated by the fact that their's has always been a feast or a famine industry, and management teams have more experience in living with volatile operations.

Primary metals producers, for instance, such as **Kennecott Copper**, recognize sharp swings in business as a basic part of their industry's economics, and have long practiced a policy of retaining large cash reserves against such contingencies. Thus, although first quarter earnings declined 60 per cent to $1.08 per share from $2.57 last year, dividend have so far been maintained. Part of the reason is that metals operators, by shutting down some operations completely, are able to exercise considerable control over their variable labor costs. Kennocott's dividend cannot be considered secure, but management is known to feel considerable responsibility to shareholders who have retained the stock in conservative portfolios for high investment income. Thus, unless business worsens, payments for the year will probably remain tt $6.00 per share.

Not so certain, however, is the year-end extra for **International Nickel**, since the company's difficulties now stem from a basic change in the nickel situation which leaves the company loaded with excess capacity.

Wide Variation Among Machinery Makers

The 21.8 per cent drop in earnings for the machinery makers averages out some widely scattered figures. The reason is simply that several companies such as **Combusion Engineering** maintained good shipments during the quarter on "long lead" items that took a year or more to produce. Moreover, farm machinery producers, such as **International Harvester** have been among the few durable goods producers to enjoy a good demand for their products. Combustion, acting on its better shipments raised its net to 51¢ a share from 43¢ a year ago, but with new orders well below last year's pace, earnings in 1959 will be a better reflection of this year's business trend. Harvester, however, appears to be in a secular upswing, and the small decline in the first quarter may be followed by better comparisons later in the year—but is selling high enough?

Aside from the farm equipment makers, however, the rigidities of high labor costs and exceptionally large fixed expenses will hurt the machinery makers. The better quality corporations, such as **Food Machinery & Chemical Corp.** will have little trouble maintaining dividends despite a 28% cut in net, but for the lesser firms, the list of dividend casualties should grow.

Autos Suffer Sharp Drop

Probably the most dramatic situation appears in the automobile industry because of its enormous impact on total economic activity. The major producers all suffered sharp setbacks in earnings as the high costs of maintaining plant facilities capable of turning out ten million cars became overburdening with production at a 4.5 million rate. Moreover, all of the major companies maintained better sales in their high quantity, low profit lines than in the bigger margin luxury cars.

Nevertheless, **General Motors**, which controls over 50 per cent of the market was able to cover dividend payments despite a 30 per cent drop in net income. Since the balance of the year should be at least slightly better there seems no reason for concern over GM's payments.

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Ford, on the other hand, has already pared its quarterly payments while **Chrysler** whose earnings plunged from a $5.34 profit in the first quarter of 1957 to a deficit of $1.74 per share this year, must definitely be placed in the doubtful category. Current payments may be maintained until the company has some indication of the public's reception for its new models in the early fall, but unless the response is outstanding a cut or omission will probably come.

In contrast to the major companies, **American Motors** with its highly successful small Rambler line, has been the belle of the ball this year. By dint of imagination and forsight the company has succeeded in capturing the public's fancy where others had failed. Still, the better trend in earnings is too new to warrant an optimistic outlook for dividends.

Summary

An axiom of good profitability is to "keep your fixed costs down" since these are the ones that eat most heavily into earnings when business turns down. However, in the last decade, American industry has done just the opposite, often on the assumption that the business picture was a one way street. Proof that plant expenses have become inordinately high is contained in the sharp earnings drop for industries with low labor costs as well as those where these expenses are traditionally high.

As a consequence of these high fixed costs, many companies have attempted to maintain profit margins by reducing their variable costs sharply. Thus, in addition to laying off labor, many corporations have slashed selling efforts by slicing advertising budgets and other promotional activities. The result has been a further decline in business. By contrast, those few industries such as the office equipment producers, that stepped up selling campaigns as soon as the recession hit, succeeded in arresting the decline quickly. (SEE Office Equipments in this issue.)

The fact remains that industry must grow into its new capacity. Part of this problem can only be solved by population growth and the natural expansion of markets, but the elimination of waste and greater selling efforts must also play their part if we are to avoid an era of exceptionally low profitability.

The few second quarter statements that have appeared so far indicate that some companies such as Johns-Manville and Jones & Loughlin Steel have made some progress along these lines, but the overall impression still appears negative. A mild business upswing now may disguise for awhile the lack of cost control in industry. But unless the recovery is a prolonged one, we will be face to face with overcapacity problems and lack of liquidity in short order. END

For Profit and Income

(*Continued from page* 535)

course, react at almost any time. While their response to "war-possibility" psychology has been bullish up to this writing, the real implications of the limited U. S. and British military moves in the Middle East remain obscure.

Choices

Ignoring unpredictable near-term, or medium-term, gyrations, rails suitable for cyclical-swing speculation include Atchison, Atlantic Coast Line, Chesapeake & Ohio, Denver & Rio Grande Western, Nickel Plate, Louisville, Southern Pacific and Southern Railway. This list excludes both the most speculative issues and some which have below-average market potentials because they are too good, on the basis of earnings and dividends, to fluctuate as broadly as the average.

Chemicals

Due to basically-changed competitive factors and to over-capacity, the chemical industry does not have a dynamic prospect. But business recovery will in due time mean operations well above the present sub-normal rates, which are believed to average roughly two-thirds of capacity; and will also no doubt bring firmer selling prices. Put it this way: earnings of chemical companies over the next few years probably are subject to a degree of improvement not much different from that in earnings applicable to the Dow industrial average. As usual, the price-earnings ratios are high; but the lagging chemical group is about twice as far under its 1956 top as is the industrial average. The considerations cited probably explain better current demand, including some evident institutional demand, for selected chemical equities. There are a number of choices. Market potentials based on cyclical business recovery appear fairly good for Air Reduction, American Cyanamid, Allied Chemical, Hooker, and Union Carbide, among others.

Late Summer

At this time it is guesswork whether business activity in the late 1958 months will be better or worse than has heretofore been expected. The market has already lived up to seasonal tradition, with a good summer upswing in hand. Perhaps it can be extended into August. However, the following points must be kept in mind: (1) present stock prices discount profits recovery for a rather extended forward period; (2) any significant addition to the market's April-July phase of advance could weaken the technical position materially; and (3) a number of sell-offs have started or become sharp in the late summer period. That was so in 1929, 1937, 1939, 1946 and 1957. —END

Do You Know What Stocks To Buy—To Avoid Now?

(*Continued from page* 507)

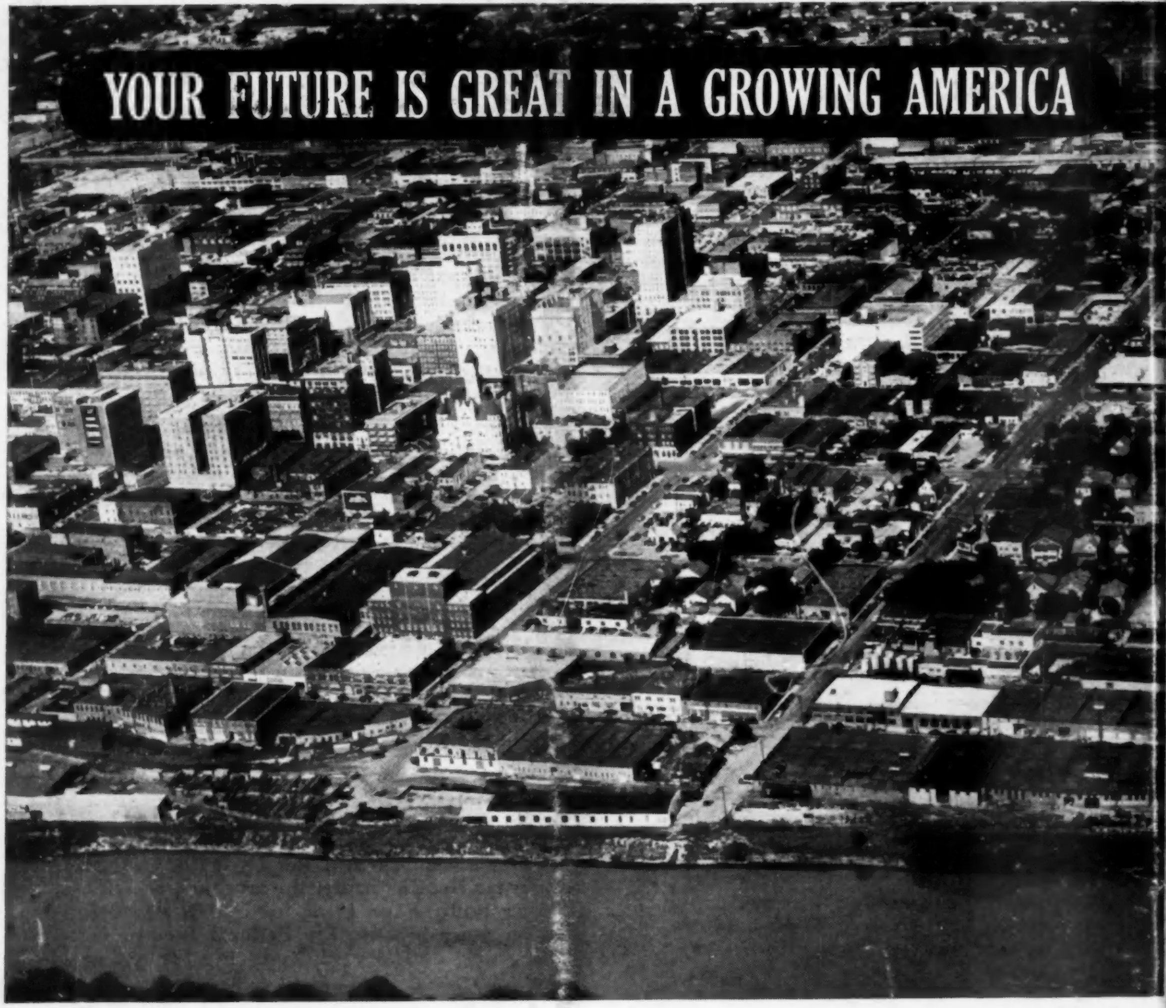
ceding the onset of recession.

Lag in Earnings

Only 4% more rise would put the average back to the 521 triple-top supply area, but earnings on it need to rise some 40% from the estimated 1958 total to match best earlier annual-rate levels. That is impossible except over an extended period. Meanwhile, the average stands around 18 times likely 1958 earnings, which means full, if not excessive, valuation.

The market is ahead of earnings and ahead of inflation. It needs another durable-goods boom, and that is distant. The psychological lift derived initially from the Mid-East crisis could evaporate. Hold to a prudent, selective policy. For suggestions see selections in special features in this and coming issues.

—Monday, July 28.



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